MicroSave-Africa
An Initiative of Austria/CGAP/DFID/UNDP

Shelter Afrique Building, Mamlaka Road
P.O. Box 76436, Nairobi, Kenya
Tel: 254 (020) 2724801/2724806
Fax: 254 (020) 2720133
Website: www.MicroSave-Africa.com
Email: msa@Microsave-Africa.com

Reducing Vulnerability: The Demand For Microinsurance

Monique Cohen and Jennefer Sebstad

A synthesis report based on the work of Grace Sebageni, Francis Simba, Altemius Millinga, Jane Mbaisi and Shahnaz Ahmed

March 2003

Contents

Acknowledgements *iv*
Glossary *iv*
Executive Summary *v*

1.1 **Introduction** *1*

1.2 *Shocks and Their Impact* *2*

1.3 *Challenge of Microinsurance* *7*

1.4 *Structure of the Report* *8*

2. **Research Methods** 8

2.1 *Objectives* *8*

2.2 *Key Questions* *8*

2.3 *Sources of Information* *9*

2.4 *Data Collection Methods* *9*

2.5 *Sampling Strategy* *9*

2.6 *Definitions* *10*

2.7 *A Three-country Comparison* *12*

3. **Risks and Risk Management** 12

3.1 *Introduction* *12*

3.2 *Non-insurable Risks* *13*

3.3 *Death* *15*

3.4 *In Sickness and In Health* *23*

3.5 *Property Loss* *31*

3.6. *Differences by Gender, Poverty and Wealth Level* *36*

4. **Reducing Vulnerability with Insurance**: **Client Perceptions and Preferences** 38

4.1 *Introduction* *38*

4.2 *Coverage* *43*

4.3. *Accessibility* *44*

4.4 Timeliness *45*

4.5 The Clients' Institutional Options: Identifying Attributes *46*

5. **Implications for Microinsurance** 49

5.1 Microinsurance Opportunities *49*

5.2 Recommendations for Product Design *51*

5.3 Role for non-financial services *55*

5.4 Final Conclusions *56*

Tables

Table 1: Possible Secondary Impacts of *ex post* Risk Response Strategies 5

Table 2: Sample Frame for Focus Group Discussions (all countries – number of FGDs) 10

Table 3: Sample Frame for Individual Interviews (number of individuals) 10

Table 4: List of Identified Risks 12

Table 5: Life Microinsurance Policies Offered by Selected MFIs 17

Table 6: Effectiveness of Coping Strategies Following Health Shocks 26

Table 7: Attributes of Two Formal Health Insurance Plans in Uganda and Tanzania 27

Table 8: Savings Portfolio: Prudence from Karatina, Kenya 31

Table 9: Precautionary Measures to Protect Against Theft 34

Table 10: Respondents Insurance/Risk Management Landscape and Perceived Effectiveness 40

Figures

Figure 1: Shocks and Their Impact 4

Figure 2: Risk Response Options 11

Figure 3: Ranking of Risks 13

Figure 4: The Impact of Microfinance Services on Reduced Vulnerability 50

Acknowledgements

The authors would like to acknowledge the many people who contributed to this synthesis report. First and foremost, our thanks go to the three *MicroSave-Africa* teams led by Grace Sebageni in Uganda, Altemius Millinga in Tanzania and Francis Simba in Kenya. Jane Mbaisi and Shahnaz Ahmed, from K-Rep in Kenya, were also part of the team. All provided the field information on which this synthesis report is based. The interpretation, however, is ours alone.

We are also most grateful for the comments of Michael McCord, Director of the MicroInsurance Center.

Our thanks to Diana Tasnadi for her editorial support.

Monique Cohen, President
Microfinance Opportunities

Jennefer Sebstad, Consultant
MicroSave-Africa, Ethiopia

Glossary

AIMS/SEEP	Assessing the Impact of Microenterprise Services/Small Enterprise Education and Promotion Network
ASCA	Accumulating Savings and Credit Associations
CETZAM	Christian Enterprise Trust of Zambia
CBI	Community Based Initiative
FGD	Focus Group Discussion
FINCA	Foundation for International Community Assistance
K-REP	Kenya Rural Enterprise Programme
KWG	Kiwatule Women's Group (Uganda)
MFIs	Microfinance Institutions
PRA	Participatory Rapid Appraisal
ROSCA	Rotating Savings and Credit Associations
USAID	United States Agency for International Development

Executive Summary

Introduction

The slow process of increasing income and building assets characterizes the road out of poverty. In the precarious world of the poor, a shock such as illness, death of a loved one, fire or theft can rapidly erase hard won gains and make the escape from poverty harder to achieve.

Vulnerability for the poor is an everyday reality. In the words of one microfinance client in the Philippines, "Life for the poor is one long risk." To cope with shocks, poor people use many different risk management strategies. They draw on informal group-based and self-insurance mechanisms such as borrowing, saving, and drawing down productive and non-productive assets.

A relatively new option for the working poor to manage risk is "microinsurance". *Microinsurance is the protection of low income people against specific perils in exchange for premium payments proportionate to the likelihood and cost of the risk involved*[1]. Microinsurance reaches a clientele that is different from that served by insurers. They have fewer assets, their incomes are lower, and their income flows often fluctuate considerably throughout the year. While the shocks that the poor experience may be the same as conventional insurance clients, they are more vulnerable because they have fewer reserves to draw upon. A majority find themselves in a reactive mode, responding after a crisis.

For microinsurance to succeed in Africa, products and services need to respond to the needs of poor people. They must be appropriate in terms of coverage, timeliness, accessibility and affordability. Arriving at the appropriate design requires understanding both the demand for and the supply of microinsurance – formal and informal. This paper seeks to understand what people are looking for in microinsurance and how attributes that meet the needs and preferences of the poor can be incorporated into the design of microinsurance products. This paper complements a sister study which examines the lessons from formal institutions currently providing health insurance services[2].

Research Design

This study explores the demand for microinsurance in Kenya, Tanzania and Uganda. Three field studies were undertaken using the same methodology. The research instruments are adaptations of two sets of tools: *MicroSave-Africa's* Market Research for Microfinance toolkit and the AIMS/SEEP 'Learning from Clients: Assessment Tools' supported by USAID. Those interviewed were primarily clients of microfinance institutions (MFIs) some of which offered formal microinsurance products.

In assessing the potential demand for microinsurance, a key question is what coverage can be provided at what cost? Our approach starts out by turning the question on its head and asks, what is the impact of a shock on poor households in the absence of insurance? How vulnerable are the poor?

Risk and Risk Management

The Impact of Shocks

Vulnerability has been described as the ability of individuals and households to deal with risk. For the poor in Tanzania, Uganda, and Kenya, the impact of a shock is a two-stage process:

1. The immediate impact of the loss of an asset and/or income, and the need for lump sums of cash.
2. The medium and longer-term repercussions that call for strategic choices by households as they reallocate resources to respond to curtailed cash flow and loss of assets and work to get back on their feet.

[1] Michael McCord and Sylvia Osinde. "Reducing Vulnerability: the Supply of Health Insurance in East Africa". *MicroSave-Africa*. 2003.
[2] Michael McCord and Sylvia Osinde. "Reducing Vulnerability: the Supply of Health Insurance in East Africa". *MicroSave-Africa*. 2003.

Responses to both levels of shock involve different strategies, which vary according to a household's resource endowment and range of coping mechanisms it can access. The least stressful usually involve modifying consumption, calling in small debts, improving household budgeting, or using formal or informal insurance mechanisms if they are available. Somewhat more stressful strategies involve drawing down savings, diversifying income sources, borrowing either formally or informally, and seeking help from friends and relatives. As a last resort, people may deplete assets, default on loans, take children out of school, or use other strategies that hinder their future productive capacity.

The Risks

Sickness, death of an income earner or family member, and property loss as a result of theft and fire were respectively the most frequent and stressful risks experienced by the study participants in all three countries.

Risk Management

Among East Africans the dominant mode for responding to these shocks remains self-insurance. The person or family retains the risk of the loss themselves by borrowing from MFIs, ROSCAs or money lenders or depleting assets such as savings and consumer durables. Figure 1, below, notes the primary and secondary impacts related to risk events and how individuals and families respond to these shocks.

Beyond self-insurance, a majority of participants also use a wide array of informal group mechanisms both to manage risks ahead of time *(ex ante)* an to cope with shocks after they occur (*ex post*). Burial societies and Friends in Need Groups[3] are widespread in all three countries. These are membership groups which require payment of dues in return for the right to access group resources, in cash or in kind, for a specified need (for example, funeral transport or burial expenses). For frequent risks that require repeated expenditures of small sums of money, for example sickness, people often draw upon other informal groups such as family, kin, and friends. Kenyans sometime use fund raisers or *harambees* to mobilize the large sums of money required for hospitalisation or surgery.

The study found that poor households have very few formal insurance options to respond to risks. Exceptions include:

- Life insurance linked to their credit products is required by two MFIs in Uganda. In the event of the borrower's death, the outstanding balance is paid and the client's family receives a lump sum that varies in amount with the size of the loan balance and the cause of death. Often these policies also cover the spouse and a fixed number of children.

- Health insurance such as the products offered by the Microcare Health Plan in Uganda and Poverty Africa's Health Scheme in Tanzania[4].

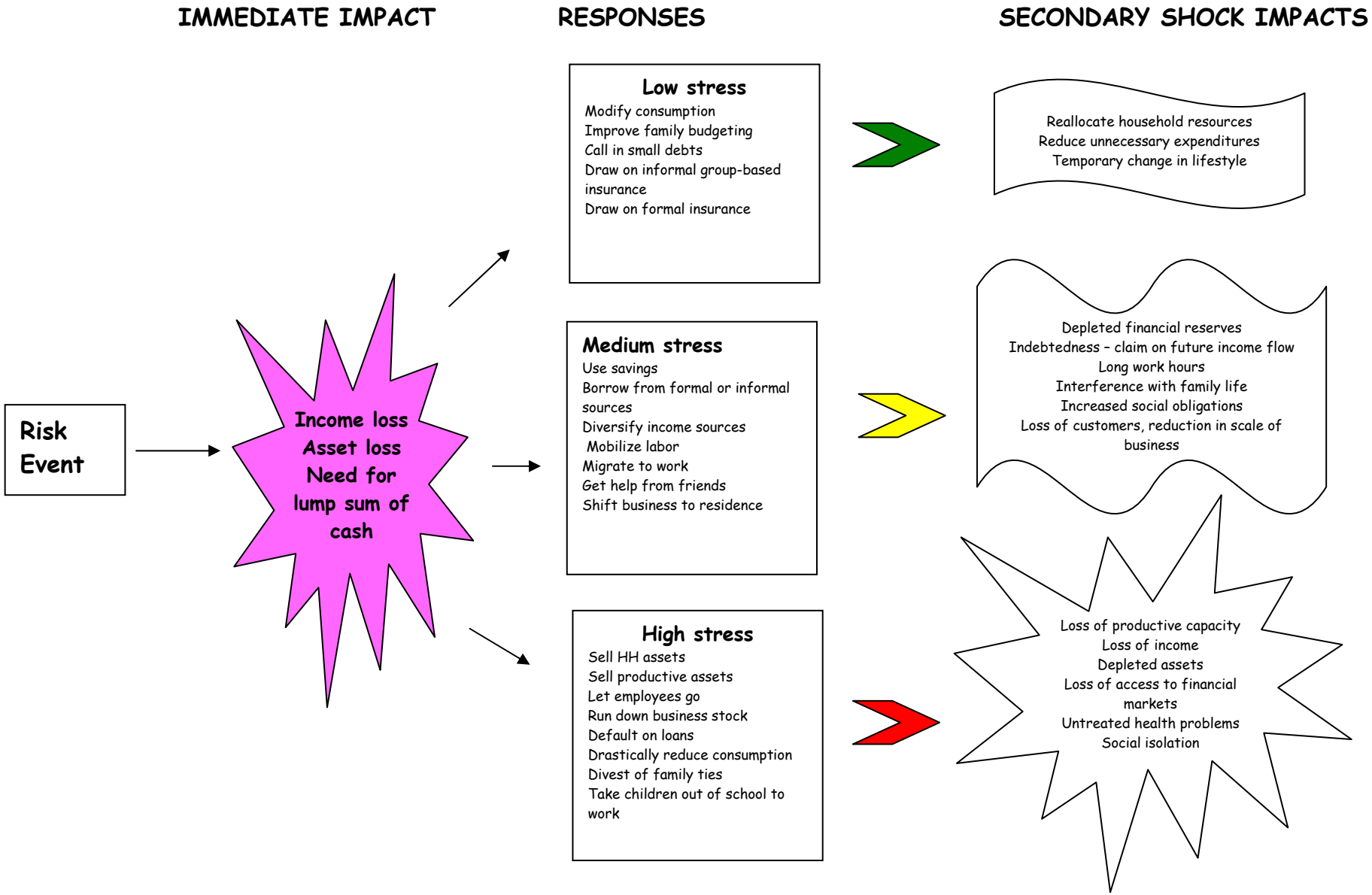
Coping Differences by Gender

While the occurrence of shocks is widespread, the impact can be uneven. With fewer assets, less control over assets, and lacking ways to exercise their legal rights to assets, women find themselves more vulnerable than men. In Tanzania, death of a husband was among the top four risks respondents identified. Among the informal group-based insurance options, some welfare societies exclude women-headed households. Self-insurance, a key strategy, is a weaker option for women who are resource poor and thus are more limited in their ability to use savings, divert income, or borrow. To protect themselves against future risks or to have timely access to lumps sums of cash when an emergency demands, the study found some complex, yet inventive, risk management behaviours. For example, as a precautionary strategy, some women belong to more than one informal insurance scheme or become clients of multiple MFIs to widen their options.

[3] Known as Munno Mukabi in Uganda.

[4] Each is addressed in detail in the supply side paper by McCord and Osinde. 2003.

Figure 1


IMMEDIATE IMPACT
RESPONSES
SECONDARY SHOCK IMPACTS
Risk Event
Income loss
Asset loss
Need for lump sum of cash
Low stress
Modify consumption
Improve family budgeting
Call in small debts
Draw on informal group-based insurance
Draw on formal insurance
Medium stress
Use savings
Borrow from formal or informal sources
Diversify income sources
Mobilize labor
Migrate to work
Get help from friends
Shift business to residence
High stress
Sell HH assets
Sell productive assets
Let employees go
Run down business stock
Default on loans
Drastically reduce consumption
Divest of family ties
Take children out of school to work
Reallocate household resources
Reduce unnecessary expenditures
Temporary change in lifestyle
Depleted financial reserves
Indebtedness – claim on future income flow
Long work hours
Interference with family life
Increased social obligations
Loss of customers, reduction in scale of business
Loss of productive capacity
Loss of income
Depleted assets
Loss of access to financial markets
Untreated health problems
Social isolation

Coping Differences by Wealth Levels

While everyone stands to benefit from formal insurance, few people currently see it as an option. In all three countries, formal insurance is viewed as the province of the rich and affordable by only the top 10 percent of the population. There is also some sense that only higher wealth groups can afford to take more precautionary measures to avert illness and to protect against property loss due to theft and fire.

At the same time, informal insurance already is part of their daily lives of the urban, rural, rich and poor, even if they do not define it as "insurance". Many actively participate in welfare associations such as burial societies, which are widespread informal precautionary mechanisms. However, for many poorer households, most risk management strategies involve reacting to a shock *ex post.* For the poor, coping with shocks can require expenditures that drain households of existing resources and are way beyond the cash flow capacity of most households. Feeding the family and keeping children in school when cash flow is reduced or interrupted are among the heavy burdens that must be faced. Coping strategies that involve borrowing often exacerbate the pressures of debt that overhang many poor households and can make the escape from poverty seem ever more distant.

The very poor have fewer options for managing risk proactively and often fall out of informal group-based systems if they cannot keep up with the reciprocal obligations. In the absence of state systems of social protection they depend almost entirely on self-insurance mechanisms which are likely to be grossly inadequate. Some are lucky but many remain in debt, permanently in a race to stay one step ahead of the next shock.

Reducing Vulnerability with Microinsurance: Client perceptions and preferences

Most of the risk management tools discussed above have been well-honed over the years, evolving to respond to new diseases like HIV/AIDS, new pressures such as the privatisation of segments of the health system, changes in the financial services market, and changes in the costs of shocks relative to income.

Meanwhile, microinsurance covering loans, life and health risks is being tried within the region. So far it has involved primarily downscaling commercial insurance products with varying degrees of success. The voices of the respondents in this study suggest there is a high demand for micorinsurance. The question is what is possible on a sustainable basis?

Coverage

Self insurance is used by most people but is rarely able to meet the full cost of shocks, particularly the more costly. Insufficient funds to meet the costs of a loss compel people to 'patch' together multiple resources to cover expenses. The resulting transaction costs are high. For many poor people, reliant on variable incomes, the full costs of even the smallest shocks may prove too much.

The findings on coverage suggest there is a demand for risk management products to cope with death. People everywhere contribute small amounts to group funds over time in order to gain access to lump sums to meet urgent expenses. These funds also come with limitations. Both formal and informal, tend to lack a consistency about the exact amount that will be forthcoming after a shock: exclusionary clauses in life insurance policies for terminal illness are limiting in environments where HIV/AIDS prevalence rates are high. Those with access to financial services find that the size of the microfinance or ASCA loans, the client's level of contractual savings or collateral can constrain the amount that can be borrowed.

Accessibility

Access to health care is largely determined by availability of cash flow to cover costs and proximity to quality health care. The weaknesses of public health social protection systems find poor people seeking other mechanisms to manage health risks. As a result poor households rely largely on self-insurance and informal group-based mechanisms. Informal group-based mechanisms have the advantage of being based locally and can be easily accessed in times of crisis. The close kin and ethnic relationships that

bind much of the membership translate into group solidarity. However, these mechanisms are sometimes closed off to the more disadvantaged, both the very poor and many women. Another limitation is that these funds may not be able to sustain more than one or two crises over a given time period. Relying on them fully becomes risky. As a result poor people find themselves forced to have multiple relationships with numerous informal groups, substantially increasing the cost of managing risk.

Health care insurance only makes sense to those that have ready access to the prescribed quality health care providers. Therefore, location limits access to microinsurance. This is particularly the case in rural areas where the provision of services by either the public or the private sector is often weak.

Transport also influences accessibility. For many poor people, payment of transport for the patient and caretaker is the first financial hurdle they meet when faced with a shock. Savings and emergency loans can be an effective way to meet these needs.

Another dimension of accessibility relates to the client's interface with the insurer. Many of the users commented that they found the *claims process* for formal life products to be burdensome. It requires complex paperwork, which is difficult for illiterates.

Timeliness

Timely disbursement of payouts, flexible systems of premium payments, the trust that underlies their basic tenets of reciprocity and their integral role within the community explain the popularity and persistence of the many welfare associations that provide funeral insurance and, in some instances, emergency loans. They are well understood by the target population they serve and can quickly verify claims of death. Two of their inherent weaknesses are fraud and systems of payouts that depend on the irregular inflow of funds.

Although accessing credit from both formal and informal institutions is a widely used self-insurance strategy in the region, the experience is mixed when time is of the essence. When one is mid-cycle with the MFI or it is not the time for a draw in a ROSCA, these mechanisms are weak. Burial societies that offer lines of credit, ASCAs and moneylenders can respond quickly. Some charge high rates of interest, making them rarely primary sources. However, they fill the gaps where the families find themselves with incomplete coverage.

Formal life insurance as currently delivered through MFIs provides an example of a timeliness problem. Policy holders indicated that when expenses are urgent they can find themselves thwarted by a claims process that is too lengthy. Also the structure of premium payment process can impede access to funds: if the client is between loans the insurance may not be available. This problem highlights an issue that warrants attention: how to de-link loans and insurance. The answer is complex and raises the issue of the cost of alternative collection mechanisms both for the MFI as well as the clients.

The Clients' Institutional Options: Identifying Attributes

For most of the clients of microfinance institutions, self-insurance is the main risk management tool that comes into play following a shock. However, self-insurance strategies deplete assets and divert income and other resources that might otherwise be invested in productive, income generating activities. It may be the option of necessity but it is difficult to argue that it would necessarily be the option of choice if other alternatives were available. It may cover the small costs but rarely the big expenses.

For those lucky enough to be able to use to MFI resources as a coping mechanism, the typical pattern followed is loans first and savings to repay the loans when all else fails. In the absence of emergency loans, this works only when the loan cycle happens to be in harmony with the crisis.

Respondents were unanimous that there is never enough money to pay for shock-related expenses. To manage, people patch together other sources of cash including the moneylender and support from family and the community. Simply, they go further into debt.

Repeated shocks, combined with depleted reserves exacerbate the household's wherewithal to cope. As productive assets and inventory are sold at great discounts to pay expenses and debt, the family can be often left with no base to get back out of poverty. Many get stuck in the poverty trap.

Well established and always evolving, the welfare associations are perceived to serve their members reasonably well. Typically they are for fairly specific, predefined events. This limits their cover. Also, they do experience incidences of fraud and misappropriation of funds. They are vulnerable to the classic insurance problems of moral hazard and adverse selection or anti-selection. In addition, using these groups to gain access to the cash required for large expenses involves high transaction costs. Beyond transactions costs there are the time costs of reciprocal behaviours implicit in the accessing of welfare groups, family and friends, and the time lost from self-employment. Understanding how these organisations could lower transaction costs might also provide insights for designing appropriate microinsurance products and could, in turn, provide another institutional option.

Implications for Microinsurance

There are many gaps that need to be addressed as we move towards delivering appropriate microinsurance products on any scale. Where microinsurance access is limited to microfinance clients, microinsurance reaches only a narrow band of MFI clients. The effective cost of insurance is still not well understood. There is much distrust of the sector among the poor. Much of this distrust is out of ignorance. Successful provision of microinsurance will require significant client education

Microinsurance has a role to play in providing the poor with enhanced risk management options. The demand for microinsurance is high. Responding to this need with flexible and appropriate products and services is an enormous challenge. The study points to product design elements worthy of consideration. They include:

- Separate out the different risk elements of health or life/funeral/loan insurance.
- Provide differentiated products able to meet different needs.
- Time premium payments to match income flows.
- Assess the range of formal and informal insurance options until we gain a better understanding of effective demand.
- De-link microcredit and microinsurance.
- Focus on protective mechanisms for property loss rather than *ex post* insurance.
- Learn from the advantages and disadvantages of reciprocity and social obligation in informal group-based mechanisms.[5]

To cope with death, the poor will benefit if the major costs can be separated out and constraints removed:

- Life insurance should cover the needs of the household as they see fit following this shock. Taking a loan should not be a mandatory requirement.
- Life insurance should be available to the poor even when they choose not to take a loan.
- Credit life insurance should cover the balance on the deceased's outstanding loan to relieve the bereaved of any financial contracts with the MFI.
- Loan and life insurance, currently offered together, should be split up. This may be more complex for the insurer, but it would offer customers a choice that may correspond better to effective demand.
- Funeral insurance should cover the costs associated with the burial rites. This should be designed within the context of these traditional practices.
- If the lessons of microcredit are to be heeded, the group dynamics of the welfare associations might provide a basis for collecting premiums and making claims that can lower transactions costs for the supplier and the consumer. Insuring the group rather than the individual might be easier and cheaper.

[5] These traditions provided the basis for solidarity group lending.

- Cover for widowhood should be explored as a separate insurance policy, or a rider might be included in a general life insurance policy for male spouses to ensure that their wives' or their jointly-owned assets are protected.

Framing any discussion of health insurance for the poor is the high level of unpredictability of health shocks together with the high cost in relation to most poor people's household cash flow. While the potential for health insurance is clear, health insurance needs to be supported by accessible, quality health services. It is less obvious what such a product would look like. We identified six component risks. They include:

- Outpatient services which cover visits to a range of health service providers.
- Hospitalisation.
- Long-term illness and related care as a result of HIV/AIDS, TB and other chronic illnesses and sickness relating to old age.
- Transport to cover the costs incurred by the sick and the person who accompanies them to a health service provider.
- Drugs.
- Preventive measures such as mosquito nets.

Clearly health insurance cannot meet all the costs related to all these components with a premium reasonable for this market. Teasing out those costs that can be supported other ways seems an important first step in assessing the options. Other possibilities that might be considered include linking informal insurance associations with formal insurance providers and with other services. Emergency loans, small amounts of money that can be disbursed quickly and repaid in a relatively short amount of time, have a role. They can be invaluable in rural areas where meeting transport services for health emergencies can be a hugely important issue.

The protection of assets would seem an obvious market for microinsurance. The demand is high and the objects to be covered are primarily productive assets, equipment or buildings. At the same time, the problems of moral hazard and fraud suggest that that the risks to the insurer are high. Until the many stumbling blocks are overcome, perhaps the emphasis should be on precautionary strategies and campaigns to protect assets ahead of time -- locks, keys, burglar bars, smoke alarms, security measures, anti-crime campaigns (theft and arson), fire extinguishers, and fire prevention education might have a greater pay off.

There is also a critical role for selected non-financial services that will increase the success of any microinsurance initiative. One of the recurring impediments to introducing microinsurance in East Africa is people's limited comprehension of the concepts of insurance. To counter this, we find that insurance education targeted at both the insurance officer with responsibility for selling the product and managing the client/insurance interface on claims and the potential individual policy holders is needed. This is key to raising the acceptance and therefore success of a viable microinsurance program for the poor. This will likely require the efforts of insurance commissions, insurance companies and other external forces.

Lastly, we need to recognize the role of the state. It will continue to provide social protection services to the poor, particularly with respect to health insurance. For many, hospitalisation in a government facility is their only option. National health policies should be understood before introducing private microinsurance. The equity of user fee policies should be assessed, as should the affordability and accessibility of services for the poor. An evaluation of the gaps in the market and the complementarities will suggest where the greatest opportunities exist for microinsurance to extend service provision and quality care to those currently un-served. The state also has a role to play in the protection of homes, businesses and other assets from theft and vandalism through systems that enforce the rule of law and promote safe communities. Regulatory systems that set building codes to reduce the risk of fires and public safety systems that provide fire and other emergency services are other areas where the state has a role to play.

Conclusions

There is a clear demand for providing the poor with microinsurance services to help them better manage risk both *ex ante* and *ex post.* Microinsurance can help the poor reduce their vulnerability and avoid falling back down the poverty ladder when faced with a shock. Indeed, microinsurance is a key component of poverty alleviation.

There is a clear demand for microinsurance to help the poor manage risk. It is a demand that can not be adequately met with credit and savings services only. Responding with appropriate microinsurance products and services will take time and be a tough challenge, but one that is well worth addressing. The conclusions of the paper point to a role for the private insurance sector in the design and delivery of such products based on a market analysis of the potential customers' preferences, their existing insurance landscapes as well as the structure of the insurance industry at the country level.

.

Reducing Vulnerability: The Demand For Microinsurance

Monique Cohen and Jennefer Sebstad

1. Introduction

1.1 Introduction

Vulnerability is both a cause and a symptom of poverty. It resides in the many shocks that pervade the lives of the poor. Their frequent occurrence can easily erode hard won gains and force households quickly back into poverty. Over the past few years, a growing body of evidence shows that microfinance has had a positive impact on the poor. Growth of enterprise revenues and, in turn, increased household incomes have brought important benefits to many households. However, focusing only on static measures of household earnings and income tends to mask the more dynamic side of poverty, the vulnerability of the poor to risk.

Risk comes in many forms, for example, illness, death of a loved one, fire or theft. These risks occur frequently and create financial pressures that exacerbate the ever-present stress of meeting regular needs such as food, rent and school fees. In the words of a CARD Bank client, "Life for the poor is one long risk."

To cope with risk the poor use a diversity of strategies. These may include borrowing, saving, selling productive and non-productive assets, and other forms of 'self-insurance', informal group-based risk sharing systems, and, occasionally, formal insurance. Yet, the effectiveness of these strategies is limited. Factors such as lack of timeliness, limited coverage and high costs suggest an insurance landscape that is far from perfect. In addition, poverty impedes many gaining access to what is on offer or taking risks. By contrast, when people feel more protected against risk, they are more comfortable in taking risks.

There also is a sequential dimension to risk. Often following one after another, the myriad of unanticipated and anticipated risk events make it difficult for the poor to build up reserves that are key to successfully coping. Without significant assets and other risk mitigation mechanisms, the poor lack the capacity to withstand the consequences of a shock. Moreover, the level of resource endowment also determines the severity of impact. It is important to remember that what may be a minor shock for the vulnerable non-poor can be devastating for those below the poverty line. Take the simple example of heavy rains and flooding. Among the middle class with a concrete house, water rarely causes much damage to the household's most precious asset, her/his house. Yet for poorer segments of the population whose houses may be of less durable construction materials, heavy rains can destroy their homes and cause the loss of any invested capital. The attempt to get above the poverty line is thwarted, and the poor can quickly return to a world where the asset levels can be viewed as the 'bare essentials'.

The prevalence of risk among the poor has been well documented in the context of microfinance clients (Rutherford, 2000; Morduch, 1998; Sebstad and Cohen; 2002; Wright, 1999; Chua, et al 1999, Hassan 1999; and Mosley 1999). Most of these analysts have recognised the relationship between client level risk and microfinance at two interrelated levels: how these risks may affect the quality of an MFI's portfolio, and how improving and diversifying market oriented financial products, services and delivery mechanisms can reduce client risk. While this paper focuses on the latter, it is clear that improving the ability of clients to manage risk is a win-win strategy both for the client and the MFI.

This study takes up the challenge of identifying opportunities to provide financial services that enable the poor to better manage risk. Based on field research carried out in May and June 2002 in Kenya, Tanzania and Uganda, this synthesis paper summarizes findings on:

1. The most frequent and stressful risks for study participants (based on a sample of microfinance clients in Tanzania, Kenya and Uganda).
2. The type of financial stress associated with these risks.
3. Current response strategies:
    a. Group or individual-based formal insurance
    b. Group-based informal insurance

   c. Self-insurance
4. Effectiveness of these responses.
5. The potential role for microinsurance in improving the effectiveness of these responses or filling gaps.
6. The implications of these findings for the design of microinsurance products and services.

This study makes recommendations on the types of risks that lend themselves to microinsurance products and services and the types of coverage microinsurance might offer. They highlight the positive attributes of group-based informal insurance systems that could be considered in the design of microinsurance products and services.

While there are very few studies on the demand for microinsurance, recent research on risk and risk management strategies of microfinance clients has shown that microcredit can help the poor to better manage and reduce risk by enabling:

- An increase in income and a diversification of household income sources;
- The building and expansion of the household's asset base, including, physical, financial, human and social assets; and
- Improved household money management (Sebstad and Cohen, 2001).

While microcredit has proven to date to be a valuable mechanism to protect against risk ahead of time *(ex ante)*, the types of credit products offered by most MFIs have been less well suited to providing poor households with the support needed following a shock (*ex post)*. Constrained by the regulatory environment, few MFIs are able to offer secure savings, which provide the poor a safety net to deal with some shocks. For the poor who are lucky enough to have accumulated reserves in other financial institutions, savings are a valued but often insufficient resource for dealing with emergencies. Opportunities for the poor to pool risk through formal mechanisms are few. Informal indigenous risk management institutions, ASCAs, ROSCAs and community groups offer mechanisms for sharing risk but they often are less than perfect (Morduch 1998).

Among the urban poor, there is a general perception that insurance is for the rich. Indeed, some of the more effective risk prevention or risk management options (such as private security companies and African Air Rescue), are for relatively better off people. Many of those who are able to access these services are salaried people who are sometimes supported by employers, and have a better understanding of the concept of insurance.

Risk management can be facilitated through savings although experience suggests that this is limited. Another alternative is microinsurance. Assuming there is a large enough risk pool, the challenge is to design products that are appropriate in terms of cost, terms, and coverage. The starting point for this study is the question of whether formal insurance can go down market. Is there an insurance market among the self-employed and other informal sector workers?

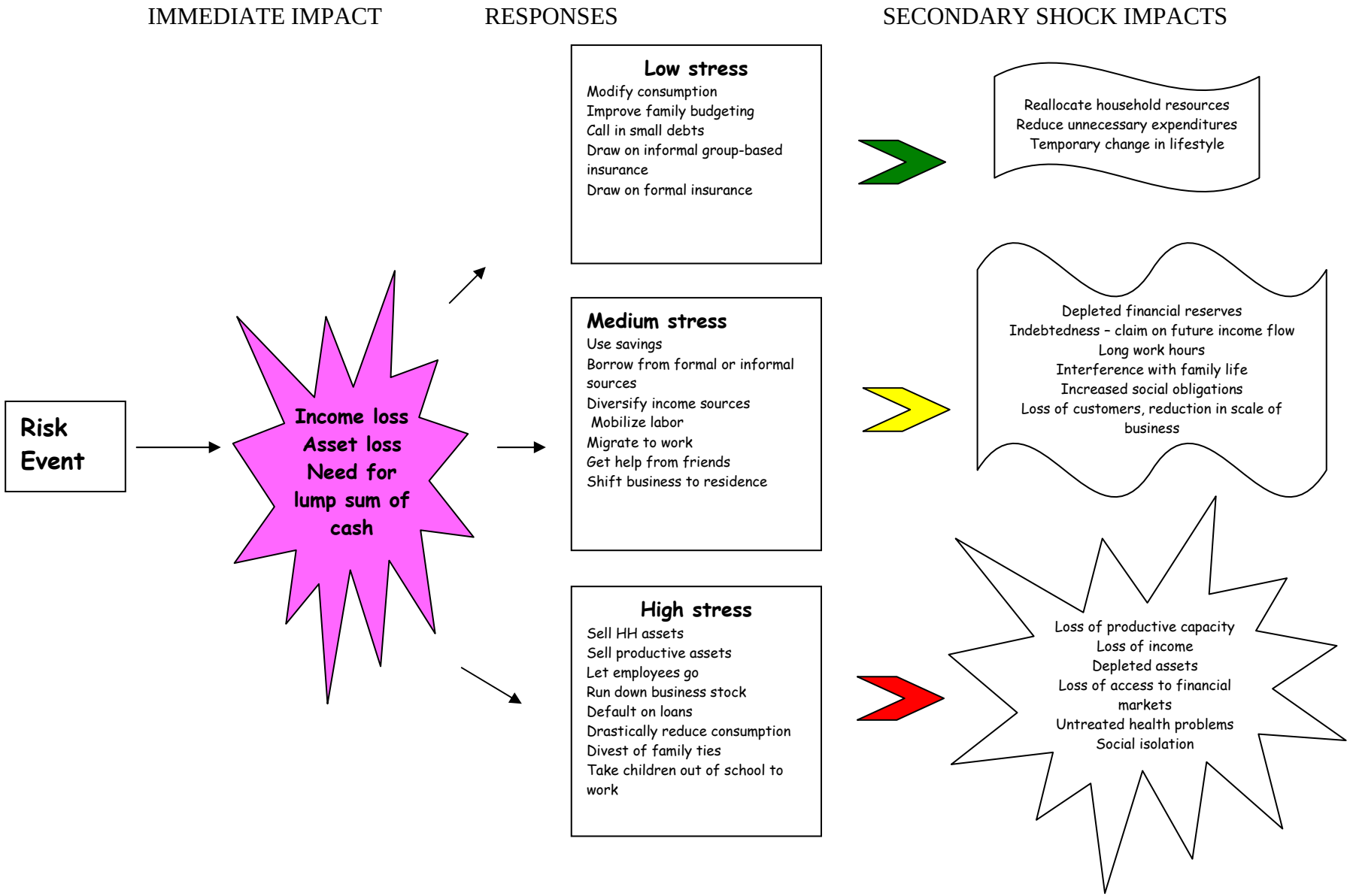
1.2 Shocks and Their Impact

In assessing the potential demand for microinsurance, the key question is what coverage at what cost? To begin this discussion, let us turn the question on its head and ask, in the absence of insurance, what is the impact of a shock on poor households? How vulnerable are the poor?

Vulnerability has been described as the ability of individuals and households to deal with risk. Two factors affecting the household's capacity to manage risk are: the resource endowment of the household and the range of coping mechanisms it can access. For the poor in Tanzania, Uganda and Kenya, the focus of this study, the impact of a shock is affected by the asset base of the household and its access to the many, but imperfect, informal and self-insurance mechanisms. Irrespective of the type of risk, its impact follows a two-stage process. First is the immediate impact of the loss of an asset, income and the corresponding need for lumps of cash. Responses to these short-term social and economic costs range in their levels of stress, depending on the resources available to the household (Montgomery 1996). These in turn are followed by medium and longer-term repercussions that call for other strategic choices by

households as they reallocate resources to respond to curtailed cash flow and the need to get back on their feet (Figure 1).

Figure 1: Shocks and Their Impact



1.2.1 Immediate impacts

Faced with a shock, all households incur expenses in meeting the immediate cost of the loss such as funeral expenses or medical charges. Some shocks also interrupt a household's cash flow. When this happens, the loss of income and earnings compounds the impact of the shock. In the short run, this means that households have to draw down reserves they have built up over time. Many households call in old debts or cash in accumulated assets including withdrawal of savings, the sale of consumer durables or renting out one's owner-occupied house. Among a lucky few with access to life, property, or health insurance, some or all costs may be covered. For those who participate in informal insurance groups, for example, burial societies, short-term costs may be partially or fully compensated. However, in the absence of these alternatives, people may be forced into higher stress responses, such as selling productive assets, seeking loans from money lenders, withdrawing children from school, or defaulting on loans.

1.2.2 Secondary impacts

These initial responses to the crisis at hand often have further repercussions. In the words of Ugandan respondents:

- You may be unable to work.
- You suffer loss of business.
- You are unable to work in the fields and so your family may go hungry.
- Your working capital may be depleted since you have expenses without income.
- You have no income but the MFI still wants loan repayments to continue.
- You have no income but your rent still accrues.

This second level of impact primarily centres on some form of reallocation of resources and activities within the household's economic portfolio (see Table 1). Among the more obvious second level effects of a decline in household cash flow are modifying consumption or withdrawing children from school. Children may be put to work in low productivity activities until the family gets back on its feet. Their limited earnings together with the school costs saved can have a small but incrementally significant impact on household income in the medium-term. However, in the longer run, withdrawing children from school has negative effects on the life prospects of the individual and on the earning potential of the household.

Disposal of productive assets represents another secondary effect with far reaching implications. When productive assets are sold, resuming one's productive activities is much more difficult and stressful. The sale of productive assets limits both the household's short and long-term recovery.

When people respond to a crisis by borrowing money, there may be a number of secondary impacts created by the pressure to repay. At a later point, they may be forced to mobilise labour, sell assets, or go even further into debt. For those who are already borrowers either from MFIs or other sources, pressure to make regular repayments is amplified. Defaulting on the loan – a MFI loan or otherwise -- is rarely perceived as a viable option. The consequence of losing access to a valued source of credit is to be avoided. Experience has shown that the poor will go to great lengths to maintain their access to microcredit, if only to be assured future access to a lump sum in times of need.

Table 1: Possible Secondary Impacts of *ex post* Risk Response Strategies

Risk response strategy	Immediate response	Possible secondary impacts
Reduce consumption	Modify consumption	Change in lifestyle
	Drastically reduce consumption	Poor nutrition Untreated health problems Restricted ability to meet social obligations
Reallocate resources	Improve family budgeting/financial management	Shift in resource allocation within household Reduction in unnecessary expenditure Experience that helps deal with other future risks

Risk response strategy	Immediate response	Possible secondary impacts
	Defer payment of outstanding loans	Fall out of financial market Inability to access future loans Loss of collateral (if relevant) Stigma
Use financial assets	Use savings	Depleted savings Limited reserves to fall back upon to meet day to day needs Limited reserves to fall back on to manage future risks Interference in achieving future goals related to housing, children's education, retirement, etc.
	Borrow from formal sources	Indebtedness – future claim on income flow to repay loan Reduced consumption to repay loan Depleted assets to repay loan Reduced access to other sources of credit while repaying If default, cut off from future borrowing
	Borrow from informal sources	Indebtedness – future claim on income flow for repay loan Reduced consumption to repay loan Depleted assets to repay loans Strain on social relationship Depletion of social capital May imply other social obligations (e.g. unpaid labour) May imply future obligation to lend
	Draw on informal group-based insurance	Expectation of continued participation in informal group
	Draw on formal group-based insurance	Premiums could go up
Use physical assets	Sell productive assets	Reduced income Business closure Loss of means to earn income Less diversified income sources
	Sell other household assets	Fewer reserves to fall back upon in times of need Less diversified asset base Change in lifestyle Reduced social standing
	Run down business stock	Reduced income Business closure Loss of income sources Less diversified sources of income
	Pawn assets	Future claim on income (to redeem) Temporary loss of income (if productive assets) Temporary loss of reserves Temporary change in lifestyle
	Shift business to residence	Interference in home life Potential loss of customers Potential limitation on scale of business Potential regulatory problems (zoning codes, licensing, taxation)
Use human assets	Work longer hours	Physical strain
	Mobilise family labour	Potential risks of child labour
	Start a new business	Risks associated with reallocation of capital and labour Market risks
	Get an extra job	Reduced quality of life Pressure on family
	Migrate to work	If men, increased workload and responsibilities for women
	Take children out of school	Longer-term reduction in human capital

Risk response strategy	Immediate response	Possible secondary impacts
	Let employees go	Loss of job/income for employees Increased demand for family labour Reduced productivity
Use social assets	Borrow or receive help from family or friends	Reciprocal obligation Increase vulnerability of friends or family
	Borrow or receive help from better off people in community	May imply social obligation Future help may not be forthcoming (deplete resource)
	Divest of extended family social ties	Cannot depend on family help in the future Social isolation
	Public welfare or other public assistance	Snarled red tape Time consuming claim processes

Many of the mechanisms depicted in Table I represent simply deferments of expenses, with costs increasing at each level. Some are expenses that will never be incurred at a later date. In contrast, the use of savings or the drawing of insurance in response to shocks represent *ex ante*-strategies that pay off *ex post*.

1.3 Challenge of Microinsurance

Insurance is a mechanism that uses risk pooling to compensate individuals and groups adversely affected by a specified risk or event. As such, it is a way to transfer risk from an individual to a group so that each individual only pays the average of the loss for all members of the group. Microinsurance is a subset of insurance that provides protection to the poor in a way that reflects their cash constraints and coverage requirements. Its clientele is markedly different from the market served by existing formal insurance companies. Microinsurance clients are poorer and depend on income flows that can fluctuate considerably throughout the year. While the shocks the poor experience maybe the same, they are more vulnerable to them because they have fewer reserves to draw upon. Once their reserves are gone, repeated shocks force them into a reactive mode, always responding after a crisis.

Microinsurance, if designed appropriately, offers the poor an opportunity to be more proactive in managing risk by reducing the chance of a loss resulting from unanticipated risk events. To date, the experience with microinsurance has been limited. As noted by Churchill and Brown (1999), the products have addressed a fairly narrow range of risks and the coverage has been limited. The most common product is credit insurance followed by life insurance. Some institutions offer the two as a linked policy; others offer them as separate policies. In many cases these products and services reflect a downsizing of existing formal insurance products.

The experience of clients with microinsurance has been mixed. Some MFIs require customers to take out a loan insurance and/or life insurance policy whenever they take a loan. Under these circumstances, clients often question the value of the product and whether the primary purpose is to protect the MFI and not necessarily the clients. A widespread view is that this approach of simply downsizing formal products can overlook the financial stress on the poor that accompanies the payments, such as regular premiums (Sebstad and Cohen, 2001). Downsized formal insurance sometimes ignores the more frequent and stressful shocks facing the poor as well as positive attributes of the informal strategies that poor people already use to cope with risk.

A key challenge is to bring supply and demand into line in a way that serves the interests of both the service provider and the poor. In the following discussion, we attempt to move outside this box of downsizing existing products and ask what a non-traditional insurance product for this sector would look like. As this paper will show, there is much to learn from the positive attributes of informal group-based insurance systems. At the same time we cannot throw the baby out with the bath water. There is a clearly a demand for more formalised insurance products that can serve the poor well by filling gaps and addressing shortcomings in the current systems.

It is useful to remember that many of the prototypes for today's microcredit came out of studies of traditional credit systems, particularly adapting features of ROSCAs to systems of group guarantees. In the insurance field there is a need to do the same, that is, to assess the strengths and weaknesses of informal structures and adapt them where appropriate. This puts the focus on the details of the product, coverage, exclusions, accessibility, and timeliness.

1.4 Structure of the Report

The next section of the report outlines the research design used in three countries, Kenya, Tanzania and Uganda. The research instruments used were adaptations of two sets of tools: the Market Research for Microfinance toolkit developed by *MicroSave-Africa* and the AIMS/SEEP Tools supported by USAID. The research was conducted with clients of microfinance institutions. Some were clients of microfinance institutions (MFIs[6]) that also offered formal microinsurance products. Others had no access to these financial services.

The third section presents the findings from the research. While more than twenty-four risks were identified and discussed, the discussion is limited primarily to death, health problems, and property loss. Not only were these risks ranked highest in terms of the financial pressure experienced by poor households, but most frequently mentioned. They also are three types of risks that lend themselves to microinsurance products. Under each risk, we consider the impact of the shocks and the coping mechanisms used by the respondents. Coping mechanisms are assessed in terms of their effectiveness, defined in terms of coverage, accessibility, and timeliness. Together these three factors determine the capacity of a household to meet the various financial, human, physical and social costs of the shocks.

In considering the implications of the findings for microinsurance, the fourth section reviews the findings in terms of the insurance landscape for the poor, its effectiveness and the lessons that can inform the design of microinsurance products and services.

The last section of the report presents recommendations to the microfinance industry as it explores the possibilities for delivering microinsurance products and services to the poor. Attention is given to the potential for downsizing existing formal insurance products as well as new concepts that build directly on the populations' experience with informal insurance mechanisms. Other services needed to support the provision of microinsurance services are also explored, in particular, client education on concepts of insurance generally and microinsurance in particular.

2. Research Methods

2.1 Objectives

The objective of the three field studies is to assess the demand for microinsurance by poor urban and rural households in Kenya, Tanzania and Uganda. The field research focused on the most common crises /risks/vulnerabilities facing a sample of these households and the effectiveness of existing coping strategies. It identified and documented the workings of indigenous schemes providing insurance services to poor households (for example, funeral funds, *Munno Makabi* ["Friend in Need"], and self-help groups). It assessed the financial profile of households to explore their capacity to afford insurance premiums in the context of other financial commitments. It explored the level of satisfaction with the services being provided by the suppliers of insurance in each country. The findings were used to assess the potential demand for insurance services in response to key crises/risks/vulnerabilities.

2.2 Key Questions

The major emphasis of the study is on coping mechanisms that people use in response to risks, the effectiveness of these coping mechanisms, and gaps that could potentially be filled by microinsurance. All types of risks were explored, but particular emphasis was given to potentially insurable risks such as long and short-term illnesses, hospitalisation, death by illness or accident, and property loss. The key questions the fieldwork sought to address were:

- What are key risks facing poor urban and rural households in Kenya, Tanzania, and Uganda?

[6] K-REP is developing a health insurance product; FINCA/Uganda and Faulu/Uganda offer forms of life and catastrophic insurance.

- What are the impacts of these risks?
- How do people respond to these risks?
- How effective are the responses?
- What can MFIs and other institutions do to improve the effectiveness of responses?
- Do people understand the concept of formal insurance and are they willing to pay for it?

2.3 Sources of Information

Primary information was obtained from clients of selected microfinance institutions (MFIs) in Kenya, Tanzania and Uganda. Other primary sources of information included key informants who participate in indigenous/informal group insurance mechanisms and existing formal insurance schemes. Secondary information was obtained from a review of literature on micro- insurance, risk and vulnerability, risk-sharing systems, and other informal group-based insurance systems in East Africa.

2.4 Data Collection Methods

The research involved primarily qualitative research methods. These included focus group discussions on *risks and risk management strategies* with microfinance clients; in-depth interviews with key informants who are members of *indigenous, informal group-based insurance schemes*; focus group discussions with people who are clients of *existing insurance programmes* for poor households; and individual interviews to explore demand side issues related to affordability.

The focus group discussions incorporated the use of several *MicroSave-Africa* market research tools[7] and focused on:

- Range of risks and the effectiveness of the coping strategies (indigenous/informal group insurance mechanisms, formal insurance and other instruments) used to address them.
- Ranking of key risk in terms of the financial stress and lump sum cash needs to cope with them.
- Changes in risks, their impact and coping mechanisms over time.
- Changes in cash flow, financial needs and prevalence of shocks in the course of the year.
- Identification of vulnerability of and coping mechanisms used by different income groups.
- Client use of financial services, including credit, savings and insurance since entry into MFI.

Information on *indigenous/informal insurance systems* and the importance of savings and credit (including MFI financial services) to manage risk were obtained through individual interviews using a discussion guide on indigenous/informal insurance systems. The study also included Focus Group Discussions (FGDs) to explore *client satisfaction with existing insurance schemes* for poor households. Participants in these FGDs were members, ex members, and non-members of these insurance schemes.

Finally, individual interviews were conducted using the AIMS/SEEP loan and savings use tool, adapted to generate *information related to the demand for micro insurance products.*[8] Questions explored the use of savings and loans to cope with key risks and the use of other informal and formal insurance systems to manage risks. This tool also generated a profile of clients' financial obligations (for example, loan repayments, informal group contributions, formal insurance premium payments, school fees) to help assess barriers to their ability to afford insurance premiums.

2.5 Sampling Strategy

The sample included microfinance clients from both urban and rural households. The sampling frame was identical for the three countries (Tables 2 and 3).

[7] Life cycle PRA tool; Time series of crisis PRA tool; Seasonality of income, expenditures, savings and borrowing PRA tool; Seasonality of risks PRA tool; Simple wealth ranking PRA tool. For more information on the *MicroSave-Africa* tools please consult www.*MicroSave-Africa*.com.

[8] For more information on the AIMS/SEEP Learning from Clients: Assessment Tools for Microfinance Practitioners please consult the AIMS web page at www.mip.org.

Table 2: Sample Frame for Focus Group Discussions (all countries – number of FGDs)

	Urban	***Rural***	***Total***
FGDs on risk and the effectiveness of coping strategies			
Women	2	2	4
Men	2	2	4
People 25-35	1	2	3
People over 35	1	2	3
FGDs on clients satisfaction with existing formal insurance schemes for lower income groups			
Insurance subscribers	2		2
Ex-subscribers	1		1
Non-subscribers	1		1
TOTAL	10	10	20

Table 3: Sample Frame for Individual Interviews (number of individuals)

Country	***Individuals for savings and loan use interviews****	***Key informants to provide information on informal insurance systems***
Kenya	12	4
Tanzania	12	4
Uganda	12	4
TOTAL	36	12

*Selected from FGD discussions

2.6 Definitions

To ensure consistency across countries the research in the three countries worked with common definitions. We have included our working definitions of risk, sources of risk, risk impact, coping strategies (*ex ante* and *ex post*) and the effectiveness of the coping strategies to guide the reader through the criteria that have been used in the analysis.

Risk: Risk is defined as the chance of a loss or a loss itself.

Sources of risk: The wide range of risks encompasses both covariant and idiosyncratic risks. Some risks are deemed insurable for our target population, MFI clients. Others are not:

- Structural factors such as seasonality, inflation, or the vagaries of weather.
- Shocks and emergencies such as sickness or death of a family member, accidental death or disability of an income earner, loss of assets due to widespread disasters (e.g., drought, social or political disturbances, floods) or idiosyncratic risks (e.g., firs, theft, evictions, other).
- Life cycle events such as marriage, maternity/birth and educating children.
- Operating an enterprise.
- Taking a loan.

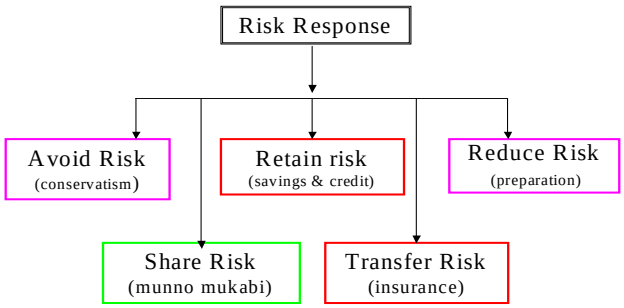
Risk impacts: In identifying insurable losses we sought to assess a range of criteria, which included:

- Nature of loss (short-term, long-term, permanent).
- Cost of a loss (short-terms and long-term).
- Frequency of event (one-off or repeated).
- Severity.
- Prevalence of a shock.
- Co-variant risks where everyone is affected simultaneously or idiosyncratic risks where the risk is individualized in its occurrence and therefore impact.
- Sequential impact of risks where multiple risks follow one another.

Coping strategies: Figure 2 identifies five risk management options.

Figure 2: Risk Response Options

Figure 2: Risk Response Options



Source: McCord, 2001

The three boxes on the upper row of the risk responses, avoid risk, retain risk and reduce risk all represent strategies that provide the poor with something to fall back on when faced with a risk event. In the context of **risk reduction**, the range of actions that the poor take is varied. It may include, for example, diversifying income sources; building up assets by saving, stocking food, and investing housing and health care. It might also include strengthening social networks and participating in reciprocal borrowing and lending systems. Another **risk reduction** strategy is to manage money well by controlling consumption, budgeting income and expenditures, and maintaining access to multiple sources of credit. Participation in funeral societies and other informal insurance systems are forms of **risk sharing** while formal insurance programmes, pension schemes, or other formal social security systems involve **risk transfer**.

After a shock or economic stress event hits, individuals and households use various strategies for coping with the loss. They include **sharing risk** (receive support from informal groups or informal insurance systems), **transferring risk** (receive support from formal insurance systems) or **risk retention** which includes a range of individual mechanisms such as modifying consumption, raising income by mobilising labour, selling assets, using savings; borrowing; receiving help from individuals.

In coping with risk another distinction can be drawn between precautionary strategies implemented ahead of time (*Ex Ante*) and coping strategies used to manage a loss after the shock (*Ex Post*). Both *ex ante* strategies (precautionary) and *ex post* strategies (managing a loss) for dealing with risk involve a mix of intra-household measures (self-insurance) and inter-household, group-based measures (informal and formal insurance). The types and mix of *ex ante* and *ex post* strategies that an individual or household use at a given time reflects its level of vulnerability or economic status.

Effectiveness of coping strategies: One objective of this study is to identify opportunities for microinsurance for the poor that will learn from and incorporate the positive attributes of informal group-based insurance mechanisms. The following criteria provide the basis for assessing the quality of the insurance mechanisms currently used by the poor:

- Does strategy cover the full loss?
- Is it timely?
- Is strategy accessible to everyone (gender, wealth level)?
- Is strategy effective for repeated risks?
- Is strategy effective for covariant risks?
- Is strategy very expensive?
- Is strategy very stressful?
- Does strategy reduce future ability to cope?

2.7 A Three-country Comparison

The study used common methods and questions and similar sample frames across the three countries, Kenya, Tanzania and Uganda. Three teams, each consisting of two researchers, were charged with responsibility for parallel tasks of data collection and analysis. The focus group participants were confined to clients of microfinance institutions. However, beyond MFIs, the range of institutions from which they borrowed or with whom they saved was much more diverse.

3. Risks and Risk Management

3.1 Introduction

This section presents the findings from the three-country research on the nature of risk as experienced by the poor and the strategies they use to mitigate risk ahead of time and cope with shocks after they have occurred. A total of twenty-four different risks were identified by respondents in the three countries (see Table 4). However, our discussion is primarily limited to three broad categories of risk, including death, health, and property risks. At this point in time they are also the focus of the current discourse on the development and delivery of microinsurance. For each risk, we consider the impact of the shocks and coping mechanisms used by respondents. Coping mechanisms are assessed in terms of their effectiveness as perceived by clients, as defined in terms of coverage, accessibility, and timeliness. Together these three factors determine the capacity of a household to meet the various financial, human, physical and social costs of shocks.

Table 4: List of Identified Risks

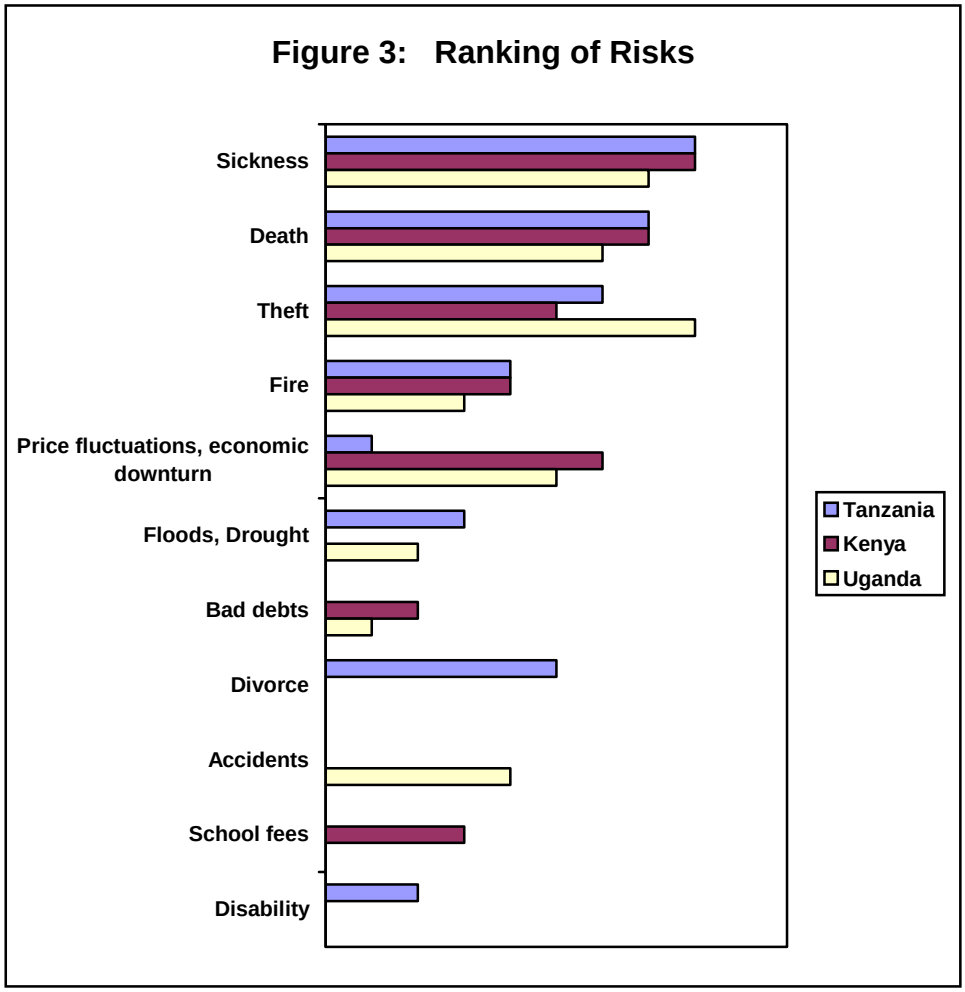
Types of Risks	Risks
Health problems	Sickness/ Accidents
	Disability
Death	Death of a member of the household or immediate relative
	Death of a husband
Property Loss	Theft and robbery
	Fire
	Eviction/demolition of business premises
	Floods and drought
Enterprise Risks	Business
	Death of business owner
	Sickness of business owner
	Price fluctuations
	Employees stealing money
	Change in business line
	Electricity shut downs, breakdown of machinery
	Water shortages
	Loss of goods in transit/buying expired goods
	Bad debts
	Defaulters
	Competition
Risk of a Loan	Loan misappropriation by spouse
Systemic Loss	Crop and animal diseases
Other losses	Marriage/separation/ divorce

Sources: Mbaisi and Ahmed, 2002; Millinga, 2002; Sebageni, 2002 and Simba, 2002.

Among microfinance clients in Kenya, Uganda and Tanzania, the most common shocks and resulting financial stresses are noticeably similar. Sickness, death, theft, and fire dominate. In addition to the direct losses and costs of these shocks, they all can affect household cash flow by not just cutting off one or more sources of household income, but dramatically increasing expenditures. These types of risks all

fall into the category of unanticipated shocks.[9] Both sickness and death can be expected to occur although the timing is unpredictable (Figure 3).

Figure 3: Ranking of Risks



Sources: Based on Mbaisi and Ahmed, 2002; Millinga, 2002; Sebageni, 2002 and Simba, 2002

3.2 Non-insurable Risks

Risks stemming from conditions of economic downturn and instability are pervasive in all three countries. While they may not lend themselves to microinsurance, these economic crises define the context for the other risks and deepen their negative impact. Growing unemployment among many salaried workers reduces their demand for goods and services provided by informal sector businesses. Credit sales become riskier, and possibilities of bad debts rise. Microentrepreneurs who had invested heavily in their businesses may suddenly be forced to close due to lack of customers. The losses can be significant and far-reaching. In the rural agricultural areas of Kenya, these shocks further manifest themselves in terms of low prices for agricultural produce (Simba, 2002). Although structural shocks affect all segments of the population, the poor are more adversely affected. Public systems of economic and social support are inadequate, if they exist at all. Lacking steady incomes and sufficient reserves of financial, physical, social and human capital to fall back on, poor households are less able to cope with other risks such as death and illness.[10]

[9] Many of the experts on risk and vulnerability distinguish between anticipated shocks and unanticipated shocks. The major categories of unanticipated shocks include structural factors such as seasonality, inflation or the vagaries of weather, accidents, fires and theft. Life cycle events such as marriage, maternity/birth, funerals and educating children fall in the category of anticipated and predictable major stress events. Anticipated but unpredictable events include shocks and emergencies such as sickness, death of a family member, and loss of assets from widespread disasters.

[10] The definitions of assets employed throughout this discussion include:
Financial assets: Cash Savings, loans gifts, regular remittances or pensions and other financial instruments.
Physical assets: Housing, buildings and land; land and other physical assets that maintain their value; physical items that decrease in value such as consumer durables and clothing; and productive assts such as equipment.

> In time series analysis of crises with members of *Mageria Ushindi Othaya* group in Kenya, the issue of family stability came up as a separate risk. Discussions revealed that the root cause of family instability was an inability of the husband or the breadwinner to provide for the family. Family members view the helplessness of the breadwinner when it comes to purchasing food, clothes, paying for the children's education or incapacity to repay a Kenya Rural Enterprise Program (K-REP) loan as reneging on their family responsibilities. Such stress creates tension and sometimes leads to family disintegration. Some husbands abandon their families (Simba, 2002).

Floods, drought, and other natural disasters significantly affect the lives of households in both urban and rural areas. Drought is a major covariant risk that can easily translate into a crop loss and hunger for rural households in the short run and, in some cases, dependency on food aid in the longer run. Floods can damage crops, businesses, and housing, and disrupt market activities. Although these risks were mentioned in two of the three country studies, they were noticeably absent from the top of the list.[11] One explanation may be that microfinance clients may be less vulnerable to these risks because they typically do not depend on agriculture as the sole source of household income. Moreover, many fall within a segment of the population that is just above and below the poverty line. They usually maintain a diversified household economic portfolio, own at least a few assets, and borrow primarily for off-farm enterprise. In places where these types of shocks occur repeatedly and are predictable, many rural households and communities have honed their risk management strategies over the years. These may include, for example, income diversification; seasonal migration; and extension of social networks beyond the community. While beyond the scope of this paper (which focuses on idiosyncratic risks) there may be some scope for microinsurance products to mitigate these risks.

Financial stresses associated with separation, divorce, school fee payments, and bad debts also are important in East Africa. Their impacts on household cash flow and assets can be considerable. However, the findings suggest that instruments other than insurance may address these financial pressures more effectively. For example, the life cycle analyses shows that the financial pressure to regularly pay school fees is widespread. While parents go to great lengths to try to keep there children in school, it is common for children to be withdrawn, at least temporarily, when there is a shortage of cash. The financial demands of children's education, for the most part, can be anticipated and managed by accessing educational loans[12] or earmarking savings for this purpose.

Advancing credit is integral to the provision of informal sector services in East Africa. Bad debts are an inherent risk of doing business, albeit one that is exacerbated by rising prices and economic instability. Insurance to cover the loss of assets purchased with credit may be a way of protecting against this type of risk in some circumstances. However, in terms of reducing this risk, business education focused on credit management can improve the skills of microentrepreneurs in this area. Nevertheless, applying these skills in day to day business can be extremely challenging, especially for people with strong social ties in their communities.

Separations and divorce, similar to the death of a spouse, create a high degree of vulnerability and financial stress for women. In some cases, women may be expelled from their family home and stripped of all resources. For women who operate home-based enterprises this means not only losing access to their place of work but also the market for their goods and services. In a large majority of cases, women become the sole supporters of their households. In the absence of legal support or other public or private systems of social protection, women often are forced to start from scratch with very few resources to

---

Human assets: skills and knowledge, ability to work, good health, self esteem, bargaining power, autonomy and control over decisions.
Social assets: Networks, group memberships, relationships of trust and access to wider institutions of society, and freedom from violence (Sebstad and Cohen, 2001).

[11] Mosley (1999) observed the same phenomenon when he explored vulnerability and risk among rural clients in Bolivia.

[12] Educational loans could be designed to cover the full cost of each terms fees and with a cycle the length of the school term.

draw on. To get back on their feet, the lucky ones may be able to tap into social capital in the form of support from family or friends. Others may have access to formal or informal sources of credit. However, most poor women are forced to rely on their own labour power to survive.

The following discussion focuses on key risks experienced by microfinance clients in Kenya, Tanzania and Uganda that have potential for microinsurance coverage: death, illness, fire and theft. It describes the nature and impact of these risks, coping mechanisms that people use and their effectiveness in helping people manage these ever-present uncertainties. While there are many kinds of impacts and coping mechanisms, this discussion focuses primarily on those that are financial. The picture that emerges is one of traditional social protection systems under strain and increasing reliance on 'self-insurance' strategies, but important opportunities for microinsurance to fill the gaps.

3.3 Death

3.3.1 Immediate impacts

Death of a family member affects households on several levels, psychological, social and financial. In terms of financial impacts, the most immediate are funeral costs and income loss if the deceased is a breadwinner. In the words of participants in Uganda:

> "*You may be forced to spend a lot of money on funeral arrangements…*"
>
> "*If the bread winner dies, the family may be destroyed…*"
>
> "*If the business owner dies, the business may also die*".

The financial pressures following the death of a family member everywhere are high. The largest cost associated with death is the cost of a funeral. Expenses that must be incurred as soon as possible after the shock include payment for:

- Death certificate
- The coffin
- Tent and food for mourners (rental of cooking utensils, plates, chairs, etc.)
- Transport of body from home to church to burial ground at the ancestral home
- Transport of family members to burial ground
- Paying any balance on the hospital and mortuary bill since the body will not be released without it
- Preparing body for burial

Transport costs can be a very big component. For those who live in urban areas or at a distance from the site of the funeral, transport can be a major expense. Given the lower quality of rural health care many rural Tanzanians are encouraged by their children to go to urban centres to receive good health care. If they die while there, relatives living in the natal village exert pressure to transport the corpse back. This repatriation of the body normally involves substantial mortuary fees as well as transportation expenses.

3.3.2 Secondary impacts

Often equally urgent but more a consequence of the loss of an immediate family member are the longer terms costs such as:

- Rituals or ceremonies following death.
- Loss of income if deceased is breadwinner.
- Business closure if deceased ran a business.
- Settlement of outstanding debts or other obligations of the deceased.
- In some cultures, the transfer of assets to brother/s if the male household head dies.

Where an extended family member dies surviving relatives often take on new responsibilities. Many next of kin take on the adoption of orphan children, an ongoing consequence of the AIDS pandemic. Several focus groups also commented on the increased rate of death, a reflection of the high incidence in East Africa of not only HIV/AIDS but also other life threatening illnesses such as TB and drug-resistant malaria.

Long illnesses, heavy expenses prior to the death of a loved one, or the attendance at many funerals take their toll in communities where the incidence of HIV/AIDS is high. These can deplete the household's

resource base making the costs associated with death particularly stressful. Not raised in the focus group discussions, but another obvious secondary impact, is the loss of productive time and household income while caring for sick household members.
In all three countries, the financial stresses appear to be greater in urban areas. By tradition in East Africa, when a person in an urban area dies, the body must be buried in their ancestral place. Depending on the distance, the transport costs can be considerable. In addition, all kin are expected to return home to honour the dead at the time of the burial, which also adds costs. Those continuing to reside in remoter rural communities in Tanzania, Kenya and Uganda do not face this stress. The load is further lightened in these communities by the shared community approach to this event. As a result, the monetary contributions required of individual households are minimal.

Managing death is more complex than other anticipated life cycle events because of both its unpredictability and the immediate need for lump sums of cash. Many respondents know that a death will occur within their families but "*we do not know when*". When a household member or relative dies the demand for money is instantaneous and requires urgent decisions. One participant in Dar es Salaam noted that "*there is always pressure not to postpone the funeral.*" To respond in a timely manner the poor have a number of mechanisms at their disposal. These options and their effectiveness are considered in the next section.

3.3.3 Coping strategies and their risk management effectiveness

Well-established mechanisms to help households cope with the death of a family member and meet its financial obligations exist in all three countries. Broadly, they fall into three categories:

- Formal insurance
- Informal insurance comprised of group-based funeral societies and mutual aid groups
- Self-insurance including savings, credit, asset sales and help from family and friends

3.3.4 Formal life insurance

Formal life insurance is offered by almost every MFI in Uganda. Developed in partnership with AIG (American Insurance Group), Ugandan MFIs provide coverage for accidental death and disability. Faulu's insurance product, unlike FINCA's, also covers catastrophic property insurance but excludes death. The examples below are typical, although, small differences arise resulting from fire and theft (see Table 5).

In the event of a microfinance client's death, both policies cover the balance of the loan outstanding to the MFI and a lump sum to be used by the beneficiary/beneficiaries as they deem fit. For microfinance clients lucky enough to have access to this microinsurance product, payment of the outstanding balance eliminates this loan risk that otherwise must be borne by the deceased's family. Where the formal insurance coverage also includes a general payout, this cash is fungible and can be used freely by the beneficiaries to cover funeral costs or to help the family back on its feet. This could mean school fees, just food when the main breadwinner has died, or capital to invest in a household enterprise as a new source of income.[13]

[13] The use of benefits was not explored by the study. Yet, it is appropriate to ask whether in light of the fact that the majority of clients are also members of burial societies or other types of welfare associations, how these lumps sums are used: for funeral costs, to supplement contributions by the welfare associations or for non-funeral related expenses. Both the rich and the poor participate equally in welfare associations. However, the wealthier members sometimes use their own money/savings to meet some of the expenses (Simba, 2002).

Table 5: Life Microinsurance Policies Offered by Selected MFIs

	FINCA	Faulu
Accidental death of the client	Beneficiaries of the client (dependents) receive Ush.1,200,000 (US$700) and the outstanding loan balance of the client's loan is repaid to FINCA.	Beneficiaries of the client (dependents) receive Ush.1,000,000 (US $ 600) and the outstanding loan balance of the client's loan is repaid to Faulu.
Any other type of death of the client	Beneficiaries receive Ush.300,000 (US$175) to assist with burial expenses, and the outstanding loan balance of the client's loan is repaid to FINCA.	Beneficiaries receive Ush.300,000 (US$175) to assist with burial expenses, and the outstanding loan balance of the client's loan is repaid to Faulu.
Accidental death of the client's registered spouse	The client receives Ush.600,000 (US$350).	The client receives Ush.500,000 (US$350).
Accidental death of the client's children	The client receives Ush.300,000 (US$175) per child for up to 4 registered children.	Client receives Ush.250,000 (US$150) per child for up to 2 children.
In the case of the business being destroyed by peril that is beyond the control of the client, often referred to as "Act of God"	N.A.	Client's outstanding loan balance is repaid to Faulu.
Cost	FINCA charges 1%, but the fee to the insurer is 0.45% of the principal disbursed.	2.25% for every loan disbursed.

Faulu and K-REP charge insurance premium fees of 2.25% and 2%, respectively, on their loans. When attached to small loans, this fee is manageable. However, as it rises with loan size it can become expensive and an impediment to clients wishing take on a larger amount of debt. For example: an individual borrower taking a loan of Ush.10,000,000 ($5,715) would pay an insurance premium of about Ush.225,000 ($129) upfront (Sebageni, 2002).

Another aspect of this bundling of insurance with the loan is the practice of enabling many clients to borrow for the insurance premium. Indeed, in FINCA and Faulu the insurance premium is included in the loan package. For many clients this may seem a marginal addition to their loan repayments. The key question is: would the insurance be affordable without the loan? Moreover, without the imbedded link, would operational costs rise and in turn lead to an increase in premiums, which would make such insurance unaffordable for some?

These formal microinsurance products currently are restricted to clients of their particular microfinance institutions so accessibility is limited. At the same time, it is not a voluntary product: in FINCA insurance is mandatory with each loan while in Faulu it is compulsory for persons belonging to groups of less than 15. While this ruling ensures protection of the MFI's portfolio in the event of a client's death, at the same time it exposes the client to a risk of different sort. Microinsurance that is tied to the loan also means that when a client is 'resting' or waiting for a new loan, they are not covered. This was clearly understood by clients and provides one explanation for the mixed reception of formal insurance schemes among a number of respondents.

> Harriet was formerly a client of Faulu. She had an insurance policy but never made a claim. She is fully aware of that the policy covered death and business catastrophes. She is equally cognizant that death, fire and floods and accidents that leave you handicapped should be covered as well as the time period between the completion of a loan and receiving of a new one. Aware of the shortcomings in the insurance policy she felt the Faulu insurance was ineffective in responding to people's needs.
>
> Judith is equally negative. Not only does she share similar views about fire, sickness and accidental injuries that leave people handicapped, her experience with Faulu has been negative. While a client of Faulu, she made a claim that was never honored
>
> (Sebageni, 2002).

The timeliness of payments is often not satisfactory, particularly given the immediacy of the need. In Uganda, the findings suggest that informal insurance groups usually make payments more quickly than formal insurers, where the lag varies from a few days to an average of 25-30 days (E-mail: McCord, 2002). Self-insurance strategies, such as the sale of assets, are a faster – albeit higher stress – way to obtain the necessary cash (Montgomery, 1996).

Linked loan and life insurance policies can provide an immediate lump sum payment to the beneficiaries and help to avert the use of higher stress coping mechanisms, such as borrowing from moneylenders. While it may be appropriate to meet the urgencies of a funeral and the shortfall in household income following a death, it maybe insufficient to cover the secondary impacts as affected households rebuild their lives. Seen in another way the cash benefit, however small, can forestall the poor falling into the clutches of moneylender who can make the road back even more difficult.

3.3.5 Informal group-based insurance mechanisms

Informal group-based systems encompass the many burial societies and 'friends in need groups' in which the members share the burden of the loss by communally contributing to the ritual that accompanies death. The primary function of these welfare associations is to cover the cost of the funeral, coffin, food for mourners and transport costs. They usually do not address the need for financial support for those left behind.

Rooted in well-established traditions of reciprocity, burial societies have long been an effective precautionary strategy used by rich and poor households across Kenya, Tanzania and Uganda. Primarily communal based, burial societies continue to evolve to reflect new bases for group formation. In all three countries, many microfinance groups have their own welfare arrangements upon the death of a group member or a loss within the member's immediate family.

Similarities in organisations appear to outweigh differences to the extent that there is much commonality in how they carry out their responsibilities.[14] There are of course exceptions to these rules. For example, some associations restrict transport benefits to immediate family members, others cover all members of a household even when they are not kin relations.

[14] Descriptions of different welfare associations in the three countries are provided in the country specific reports (Simba, 2002; Sebageni, 2002 and Millinga, 2002).

Organization Of Welfare Associations And Burial Societies

- Membership is defined by place of origin or other attribute (e.g. trader's association).
- A constitution.
- Upon the death of the entitled person, members of the burial society participate physically in ensuring that funeral takes place as planned. As death certificates are not officially required, these groups can act in a timely manner.
- Each society has a fixed membership fee which is payable once on joining the burial society.
- Premiums are collected from members on a regular basis, usually weekly, monthly or bi-annually.
- Burial societies are accessible to people from all income levels, provided s/he is 18 years of age and above.
- Each association defines the eligibility of members and benefits of its members.
- The services of the burial society are available to all paid up members and family members and relations as defined by the constitution.
- Payout is usually a fixed amount for each death (although the amount may vary according to the status of the household member) and is usually equal for all group members.
- The payout is general and is not tied to any specific aspect of the burial arrangements.

The strength of these informal systems lies in the sharing of risk, and their overall effectiveness in responding to its members needs on a timely basis. At the same time, however, the coverage provided by a single burial society or welfare association can be limited. The ready availability and accessibility of funds can sometimes pose a challenge.

In assessing the capacity of the payments from burial societies to meet the funeral costs of a deceased, it is useful to distinguish between fixed and flexible costs. The death certificate, the tent and food for mourners, transport of body from home to church to burial ground and the transport of family members to burial ground are all required expenses, although the number of participants affects the total cost. Other costs such as the embalming of the body are optional. Transport costs are variable depending on distance the mourners must travel. In addition, costs can vary with the age and status of the deceased. Funeral costs are greater for people of higher status.[15]

The findings suggest that, in general, the payouts from a single association are usually insufficient to meet the family's total funerals costs. The limited coverage may also reflect the society's constitution, which fixes the payout to a set amount of money regardless of funeral cost [16] or the high cost of travel when the death does not occur close to the member's home. Sometimes the payout is so small that it provides only nominal relief (Millinga, 2002). On rare occasions the coverage can be 100%. In Kenya the research identified differences between rural village-based and rural church-based and urban funeral welfare groups. They were associated with very different methods of contribution. The two rural groups require contributions from all members at the time of a member's death; the other depends on regular monthly contributions. For the rural groups, the cost of funeral equals what is collected.

In all three countries, the study found people who belong to more than one association as a necessary risk management strategy to ensure fuller coverage of funeral costs. While multiple memberships may diversify one's risk, it can bring high costs as measured in the opportunity cost of the members' time.[17] Furthermore, accumulating the resources across numerous organisations is a time consuming process that takes away from an individual's productive activities and can readily delay the timing of the funeral.

[15] An informal assessment of the use of FINCA Life Insurance payouts in Uganda suggested that there is an elasticity associated with this expense, which often expands to fit the available amount of disposable income. In Nepal, increased funeral expenses were found to be related to rising status and income of the deceased's family (Simkhada et al., 2000).

[16] For example, the Victoria Burial Society accepts members who are residents of Chalinze and its neighboring villages, but they originally must be from one of three regions in Tanzania, namely Kagera, Mara and Mwanza. The Society pays a member 60,000 in case of death of his or her father. The money is paid out regardless of whether the person has plans to attend the funeral. However, sixty thousand shillings are not sufficient to meet the cost of one person's trip to Musoma, Bukoba, or Mwanza (Millinga, 2002).

[17] These include the demands of many meetings and physical contributions to many events that are integral to staying current with each the organization.

Keeping the coffers full so that the funeral society can cover a member's costs is a challenge for many groups. A sequence of deaths can rapidly erode the available capital. In Kenya, the findings indicated that Welfare Associations often are overwhelmed when they are subject to more than one death in a short period of time. The pressure on resources is compounded in times of inflation or falling prices.

Leticia is a member of five Funeral and Friends in Need societies and two MFIs. Her monthly premium is Tsh.9,500. She also deposits Tsh.4,000 monthly with one MFI and saves weekly with another. As a teacher she also pays Tsh.2,000 monthly for health insurance. When asked why she had joined all these Burial societies, Leticia said, "*As you are aware I come originally from Kagera region, where my parents and relatives live. In case of death of one of them, I need a least Tsh.300,000 for travel and other costs. With one burial society this is not possible*." The payouts of the five burial societies are as follows:

Burial Society	Payout (Tsh.)
Victoria	90,000
DAMOPWA	80,000
CDA	100,000
Teachers 1	35,000
Teachers 2	80,000
Total	385,000

According to Leticia, "*Payouts are collected immediately once one reports to the leaders of the burial society*." (Millinga, 2002)

Burial associations are common throughout East Africa and accessible to a broad range of the population. However, while many people can and do join, some fail to make the long-term commitment of small, but regular monetary contributions. One consequence is that the very poor drop out. Another is that funds are not readily available when needed. If a member is in arrears, which is a frequent occurrence, a payment is first required before a claim can be made on the group's resources. Often, this is accompanied by a penalty in the form of a flat fee or double the amount of the subscription fee. Gathering this lump sum can take time and thereby further constrain the member's access to the payout. Delinquency on paying premiums also has implications for the amount in the coffers that members can access. For example, Kenyan participants cited cases where bodies were kept in local mortuaries for up to one month, reflecting the time it takes to raise the money through meetings (Simba, 2002).

Timeliness can be an important advantage of burial societies in meeting urgent funeral expenses. To ensure this, a range of strategies are employed. One society in Tanzania maintains a savings account with a local bank and thereby ensures that payouts are timely without any complaints. However, the treasurer also keeps some money should claims be made over the weekend when banks are closed. Members' businesses do not do well and they are sometimes unable to contribute. The result is an association unable to provide the full amount of the payout on time or an association that takes a lot of time to respond.

The comparative advantage of burial societies lies in their effectiveness in providing responses to the immediate impacts of death, the coverage, at least in part, of funeral expenses, and social support to the bereaved family. A well-honed institution and with a well-defined role, the burial society can offer assistance in kind and some cash. By contrast, they are ill suited to meeting the longer-term secondary impacts associated with the loss of an income earner and the expense of an outstanding loan.

3.3.6 Self-insurance

The poor employ many loss management strategies that require a reallocation of household resources, particularly assets. They liquidate savings, incur debts, sell household and productive assets. As the pressure of expenses builds, businesses may be closed for lack of capital or children withdrawn from

schools for lack of money to pay school fees and meet other educational costs. In Tanzania poor households obtain the needed financial resources from Banks, MFIs ROSCAs, ASCAs, and Moneyboxes "*Vibubu*".[18] The bereaved also borrow from friends. The fungibility of cash means that timely MFI loans whose stated purpose is to finance businesses are sometimes used to meet funeral costs.

> In 2001 Maua's mother – in – law passed away. She used some of her loan for the bus-fare to the funeral (Tsh.40, 000). After the burial, Maua's family sold their stock of maize in order to repay the loan. Maua's is a member of a ROSCA composed of 18 members. Each contributes Tsh.200 everyday. And at the end of the day one of the members takes the cash. Tsh.7200. At the time of her mother-in-law passing, it was not her turn to collect money from the pot so she was forced to use alternative loss management strategies
>
> (Millinga, 2002).

Self-insurance is particularly important for the immediate costs associated with death other than funeral costs. The ritual ceremonies the take place at certain intervals following the death often require family members to carry out ceremonies and invite friends and relatives of the deceased. The family typically covers these costs using their own resources or 'self-insurance' – income flows, savings, borrowing, or sale of assets.

While some funeral expenses are more or less fixed (for example transport of the body), others vary according the resources available to the family. The resource endowment of the household and access to 'self-insurance' mechanisms are factors that influence these expenditures.

Self-insurance is probably the most widely used mechanism for meeting both immediate and longer-term impacts associated with death. It is not always the most effective. While accessibility is in its favour, the amounts available in savings accounts are limited and used with reluctance. More often than not, family needs well outweigh the supply of savings and the amounts that can be accessed over the long run from family and friends. Borrowing from the money lender or selling assets are medium and high level stress options which can deplete reserves that have taken a long time to build and will take equally long to rebuild.

3.3.7 Gender dimensions of death

The death of a husband is often compounded by many secondary shocks that affect the economic and social welfare of a woman and her children over the long run. The loss of a husband is compounded by:

- The loss of husband's income stream;
- Loss of household assets;
- Loss of social status/standing in the community;
- Loss of supportive links to husband's family;
- The need to assume full responsibility for children.

Among Tanzanian respondents, this shock ranked number three in financial pressure after sickness and death.

The findings in Tanzania and Uganda on precautionary strategies to mitigate risk and the capacity for women to cope with death of a spouse highlight their weak position.[19] The death of a husband immediately changes the power structure within the household. The wife no longer has control over decisions affecting her children, herself and her own assets. This responsibility shifts away from her household to that of the in-laws, normally the parents and brothers of the deceased. Put succinctly by one participant, "*…seizure (of) property takes priority over funeral ceremony. After the death of your husband, the brothers and sisters of the deceased get you out of your bedroom and lock the room using a newly bought padlock. After the funeral ceremony, (the in-laws) take everything and leave you with your children*" (Millinga, 2002).

[18] These are sealed boxes for deposit of coins. The method is used by women in Tanzania (Millinga, 2002).
[19] This issue was discussed in the Tanzania report and touched on briefly in the Uganda report, but not addressed in the Kenya report. However, the issue is relevant to all three countries.

The dire implications of such actions are often reflected in a sequence of shocks, each building on the other and resulting in a cumulative process that can plunge a woman and her family into extreme poverty. For most women, the family assumes the immediate financial pressure of the funeral. Beyond the personal loss of a partner, it is the next wave of the shocks that often has the greatest impact. Women can find themselves and their children destitute. When relatives grab all jointly owned assets, including those that a couple may have built up through investing loans in their businesses, the women are robbed of the means to earn a living and support their children. Thrust quickly into extreme poverty, the long-term effects on these women can be calamitous. In the story of Lea, below, we see not only the effects on the woman's loss of status, but also the negative repercussions on the older children, and the slow recovery. The frequency of this occurrence is implicit in the statement by another Tanzania client: "*I am more worried by the death of my husband than my own death, because once my husband dies I am sure I will live a very miserable life"*.

> Lea is a client of YOSEFO (Youth Self Employment Foundation), Tanzania. At the time of her husband's death in 1993, Lea and four of her children lived in Dar es Salaam. Killed by bandits in the Tanga Region in 1993, her husband's body had to be transported for burial the long distance from Tanga to Ndungu, his home village. Lea traveled to Ndungu village from Dar es Salaam to participate in the funeral. Married into Muslim family, she was asked to observe "*edda*" i.e. stay in isolation for three months. While she was observing the "*edda*", her husband's brother sold all their property including a car and a house that was under-construction in Tanga. Her late husband's brother also expropriated the household's savings. Lea and her family were left with nothing.
>
> Prior to his death, Lea had operated a microenterprise which did not generate sufficient income to feed their four children, pay the rent, health bills and school fees. Now the head of the household, Lea could no longer afford to keep her eldest son in secondary school. She felt she also lost control of her son when he joined a marijuana-smoking group. Upon completion of primary school at 15, her daughter got pregnant. Lea felt she had no choice but to let her marry the man when he admitted that he was responsible for the pregnancy.
>
> After losing the household's property to the brother of her late husband, Lea decided to work her way through a new life. In 1996, she approached an elder in her church who gave her a Tsh.100,000 ($118) interest free loan. Through the loan she started baking cakes and selling them to restaurants. In the year 2000, she joined the loan program of Youth Self Employment Foundation. Since then, she has borrowed seven times. She bought a house, started a poultry business and has managed to send her two younger children to a private school
>
> (Millinga, 2002).

The tools for coping with major survival crises are few. Traditional institutions and social norms do not always serve women well when their husbands die. They may isolate women from informal group-based systems of support; they may deplete her physical and financial assets, which comprise her 'self-insurance' systems. The question is: how can formal insurance and other types of support (e.g., legal protection of assets) – make up for the inadequacy of informal and self-insurance systems for women.

Those lucky enough to have formal insurance can be covered for such losses. This assumes that there exist sufficient safeguards to ensure that women control the formal insurance benefits to which they are entitled.

The informal group-based mechanisms in the form of welfare associations are primarily intended to cover costs associated with the burial rites. They do not provide supports to help a woman to get back on her feet. For this phase of the recovery, the options are more limited, though not totally absent. For the few women with legal wills that entitle them to inherit their husband's assets, the family's claims can be contested. However, this is costly, time consuming and complicated. Without the appropriate legal support few women can afford to go it alone. In some cases, there are discrepancies between statutory and traditional laws regarding inheritance of property. Again, court cases to protect the property rights of women can be time consuming, complex, and costly. For the majority of women without wills this void needs to be addressed. This is not easy when so many men are opposed to women owning assets in their own name.

The central challenge faced by all women following the death of their spouse is retaining existing household assets and accessing other resources to recover and start over. Women who are working and have a stream of income are in a better position than those who have not been in the workforce. Some women take over their husband's business activities. For long standing MFI clients, a new loan can help. Family and friends can provide limited relief in cash and in kind. The story of Lea indicates also that while Friends in Need groups and church groups can help put someone on the road to recovery, overall, their scope is limited. Drawing down savings and purchasing assets are other precautionary strategies. However, none is particularly effective relative to the enormity of the loss. In the absence of any obvious financial solutions, the other impediments need to be addressed. Priority should be given to ensuring women have joint access to assets, can independently own property, and are defended by laws that protect women's property rights. Exercising these rights entails more than writing wills. It also means access to a legal infrastructure that ensures that these legal rights and contracts are honoured.

3.4 In Sickness and In Health

3.4.1 Introduction

Sickness was ranked number one by all interviewed as the most frequent shock and the one that created the highest degree of financial stress. As one Faulu client in Kiwatule said, "*I would sell my land to treat my sick son, but I would not sell my land to bury my dead son.*" Another respondent said "*You spend a lot of money in times of sickness because you are trying to prevent death.*" (Sebageni, 2002)

Across the three countries, ill health scored highest as the life cycle event that caused the greatest degree of financial pressure on the poor. Moreover, across countries respondents perceived this shock as increasing in severity over the past five years.

> In Uganda, the MFI clients' explanations for these trends were:
>
> - Malaria has increased and become resistant.
> - High blood pressure has increased it seems because people have so much to worry about and so much stress.
> - The reality of HIV/AIDS is ever present. Many diseases take advantage of the person's weak immune system
> - Poor feeding as poverty means people cannot eat well so their bodies are weakened and they easily get sick.
> - People do not use herbal medicines as much as they used to.
> - Too many chemicals and preservatives in some of the food we eat like the chemicals used to spray tomatoes and the chicken feeds
>
> (Sebageni, 2002).

Illness, like death, falls under the category of anticipated but not predictable risks. But unlike death, it is not a one-off occurrence but a constant risk during a person's lifetime. This repetitiveness creates persistent uncertainties that continually put pressure on a household's financial and human resources and on the health of its economic portfolio. Add to this the varying severity and cost of illnesses. Beyond simply the direct health costs, the poor are particularly vulnerable to the pressure of lost income when the household income earner falls ill or s/he must take time away from productive activities to care for sick household members. This vulnerability is compounded by the repercussions that stem from the redirection of household resources to the treatment of the sick and her or his illness.

In Kenya, participants were also clear that no distinction should be drawn between sickness and accidents. The impacts were the same, calling for medical attention as well as care, all of which impose the same costs on poor households.[20]

[20] In Kenya, drivers are supposed to carry third party insurance. Although they may have it, it is nearly impossible to get the insurer to pay, and equally impossible for the poor to push the matter through the courts.

There often is a seasonal dimension to cash flow that compounds the incidence and effects of short-term illnesses. In Tanzania, malaria and diarrhoea commonly affect people, particularly children, during the rainy season, March through May. These also are months of low-income flow exacerbating the financial pressures of these and other short-term illnesses (Millinga, 2002).

To fully understand the true meaning of health shocks it is instructive as well as necessary to further deconstruct this risk into component elements. The fieldwork began by differentiating:

- Short-term illnesses, which are, primarily, treated on an outpatient basis and, usually, demand small unit expenses. At the same time recurrent malaria and typhoid can be costly.
- Hospitalisation, which inevitably entails large expenses.
- Chronic illnesses such as HIV/AIDS, TB, diabetes, asthma, ulcers and high blood pressure result in not only high on-going medical expenses, but also heavy demands in on household members in terms of care provision.

Subsequent analysis indicates that within these categories, costs can be broken down into further categories. They include:

- **Transport costs.** Lacking health service providers close to their place of work or home often results in the poor incurring significant transport costs when accessing health services. This is accentuated in cases of emergencies. In rural and peri-urban areas, costs are further increased by the need to have a caretaker at the hospital.
- **Drug costs can impose a weighty burden.** A limited capacity to bear this cost was made clear by the persistent problem of many poor people failing to complete even a short course of treatment. For many, this translates into repeated bouts of the same illness, each worse than the last, and a danger to public health.
  "When people feel well before they are completely cured, they stop medication and have probably run out of money. They seek treatment again soon after, sicker, and require stronger, costlier drugs." (Simba, 2002)
- **Others, which include both preventive as well as curative care.** Immunisations, special diets, mosquito nets and condoms all require expenditures, which for the poor translate into major financial tradeoffs.

3.4.2 Immediate impacts

In Tanzania, Uganda and Kenya there is a view among the respondents that the incidence of disease has risen over the last ten years. The onset of HIV/AIDS and resistant malaria have contributed to this rise, along with other factors. Everywhere, structural reforms have been accompanied by decreases in public health expenditures and policy directives that have resulted in increased user fees. In Tanzania, the declining quality of public health services has pushed people wanting quality health services into the private sector, adding to the financial pressures facing poor households. Those who cannot afford either public or private health care shy away from getting treatment in a timely manner and thus become even sicker.[21]

In coping with illness, poor people in the three countries seek medical treatment from a variety of sources: public and private hospitals or clinics; local herbalists; witch doctors and self-medication.

> "*Once you fall sick, the first step would be just to go to a drug store and buy medicine. If one cannot afford one would opt for traditional medicine that can be found in the area. The most common traditional medicine is neem-tree "Mwarobaini". If the problem persists, the end result (could be a much) higher cost in treatment or death. For example, delay in treating malaria could increase cost from less than Tsh.1,000 to Tsh.15,000."* (Millinga, 2002)

[21] A study by Save the Children/UK in Ethiopia "Too Poor to be Sick" found that most people lack the cash to pay for health services. Moreover, they do not use public care facilities or seek treatment due to financial barriers. The lack of drugs at public facilities forces people buy drugs from private pharmacies, which they cannot afford. To pay for treatment one third of the poor forego essential spending and one-third use strategies involving borrowing, sale of assets or the mortgaging of crops. These strategies contribute to indebtedness and asset depletion and reinforce inequities and limited access by the poor to health services (Email: Sebstad, 2002).

All of these coping strategies impose varying degrees of financial pressure on the poor. As observed with death, three options dominate their financial responses: formal mechanisms, informal group-based mechanisms, and self-insurance. The first plays a marginal role in the life of the poor. In all three countries, attempts have been made by MFIs to partner with health service providers and insurers to deliver such services. A few Kenya participants were covered by their spouses' enrolment in the national Hospital Insurance Fund. For most of the population, self-insurance is their primary source of lump sum of cash to cover expenses. The primary sources are current income and savings, in cash and in kind. Those with access to lucky timing on their microfinance credit may also divert a portion, if not all of a loan, to cover these costs.

The choice of loss management strategy is primarily a function of the size and immediacy of the expense. In Kenya, it was observed that only a small number of families can deal with the smaller costs of outpatient care from available resources: savings, household cash flow and borrowing from family, friends, and church groups. Others tap informal financial mechanisms such as group welfare association emergency funds, ASCAs, ROSCAs, and moneylenders.[22] The study found that some moneylenders charge exorbitant interest rates, sometimes as much as 30 percent for a two month loan (Mbaisi and Ahmed, 2002).

For the larger costs, such as hospitalisation, these same strategies are used but they often are complemented by other actions. In Kenya, people organise *harambees*, or fund raising events, to help the family generate a major chunk of cash needed to pay the hospital and the attendant services associated with surgery. The drawing down of, first, non-productive assets and, second, productive assets, also is common. Selling productive assets is a high-stress strategy that depletes future income earning potential.

3.4.3 Secondary impacts

Much of the discourse on health risks is focused on the most immediate medical costs of the illness. Often equally important for poor households are the repercussions that stem from borrowing money if this is how they cope, or the loss of cash flow and productivity when the patient is a key income earner and cannot work, or when a household member diverts time away from income generation activities to take care of someone who is ill. Loss of income to pay for food or repay outstanding financial obligations, including an MFI loan, can readily weaken family stability. With no money coming into the family, the business can collapse. Indeed, among the self-employed, with one person owner-operated businesses, maintaining or continuing the business may not be an option. Various strategies for keeping a business going during times of illness, in themselves, may be fraught with risk.

> Jane is a nurse who runs a dispensary in Kampala. In anticipation of her surgery she hired a helper to keep her pharmacy open the two weeks she was incapacitated. However, soon after the surgery she learned that her 'helper' had run off with the money and part of her inventory
>
> (Cohen, 1999).

Meeting the expenses of both long-term illnesses and hospitalisation are highly stressful for poor households. When low stress and even medium stress coping strategies are exhausted, the only alternatives may be selling assets or withdrawing children from school. For rural households the sale of food reserves can lead to a failure to plant crops and in turn food insecurity over the forthcoming year. Putting children to work may be the only solution in some HIV/AIDS affected households but it is one that will at best help at the margin.

3.4.4 Coping strategies and their effectiveness

Poor households use a diversity of strategies to cope with health shocks. The precautionary strategies identified in the three countries are many but come with constraints. Very few can deliver lump sums of cash in a timely manner. The list includes:

- Individual savings – this includes both savings accounts but also the money under the mattress.
- Asset acquisition.

22 In Kenya they are known as ''Shylocks".

- Group emergency funds – contributions are made on a regular basis and lent out by the group when requested.
- Reciprocal lending within families and in communities.
- Church donations.
- Traditional herbs.

Constrained by limited incomes they lack any one way to obtain the needed lump sums when illness strikes. A diversity of options are used sequentially or together. The final choice depends on the urgency and the scale of the need (see Table 6).

Table 6: Effectiveness of Coping Strategies Following Health Shocks

Coping Strategy	Ex post responses	Effectiveness	Shortcomings
Formal insurance	National Health Service – found in all countries	Can cover numerous household members.	Quality is variable and drug supply is a problem.
	Health Insurance, Prepaid health plans	Premiums can be reasonable.	• Policies may not cover all illnesses. • Policies and /or price may limit number of household members a household can afford to insure.
Informal group-based	Burial societies	Some welfare associations provide small amounts of money; no user fees.	
	Friend in Need Groups	• Good for small amounts. • Can get loan for 2 months. • Borrow from MFI groups' emergency funds.	
	Borrow from Church groups	Loans average about Ksh.100-200 ($1.25-2.50)	Limited resources.
	Harambees (Kenya only)	*Harambees* used to settle hospital bills – need to start early enough before discharge – quick way of raising big funds.	• Depend on reciprocal arrangements. • Success depends on social class. • Expenses are often high.
Self-insurance	MFI loans and savings.	• Loan used if sickness is immediate and readily available. • Savings good for small amounts and to pay off loans when no other options available.	• Savings cannot always be easily accessed and are rarely sufficient to meet larger costs. • Loans are frequently insufficient, especially when the household needs to split the use of the loan.
	ROSCAs and ASCAs –	Use ROSCAs by getting priority in payout order.	• ASCAs are limited to those with collateral, interest rates on loans very high. • ROSCAs constrained by timing of payout. • Groups often do not have large enough sums and disbursements are not timely.
	Payment out of current income	Works for small expenses.	Never enough cash to cover major costs.
	Use savings kept at home	Good for small amounts.	Savings may be insufficient because savings levels are too low.

Coping Strategy	Ex post responses	Effectiveness	Shortcomings
	Borrow from family and friends	Support from family and friends is traditional system of support; most effective when amount is small.	• Not always readily available when needed. • Family and friends' support can be weak because of covariant risks. • Family and friends not effective where costs are high or long-term. • Reluctance to tell friends.
	Sell assets	Quick access to cash.	Can deplete future earning capacity of household.
	Money lenders	Fast and readily available.	Cost high; harassment can be problem.
	Pledge land title and mortgage assets	Land title may be pledged to cover hospital costs.	Land title kept by hospital until bill paid – need to agree on bill payment plan.

3.4.5 Health insurance or prepaid health schemes

In all three countries, a minority of respondents had access to some form of formal health care insurance or prepayment system (Table 7). Microcare in Uganda as an insurance system requires its policyholders to pay an annual premium and then a fixed amount per visit to the health service provider. The Poverty Africa Health Scheme, a health insurance programme in Tanzania, requires a single annual premium. Policy holders are reimbursed for expenses incurred.

Table 7: Attributes of Two Formal Health Insurance Plans in Uganda and Tanzania

	Microcare Health Plan – Uganda	Poverty Africa's Heath Scheme – Tanzania
Who is covered	Open to families – family considered as a minimum of four and part of a group of over 15 people.	Open to individuals and their families.
Scheme	All members can access hospitals registered with Microcare.	Members use designated hospitals, health centres and dispensaries unless it is an emergency.
Coverage	• Casualty and outpatient services; In-patient services. • Referrals to specialists within the hospital. • Surgery, X-rays and laboratory procedures, Prescription drugs, Maternity. • Dental care, Optical consultation.	I - Basic health services-dispensaries, only out patient services. II – As above plus in patient services, surgery, X-rays and laboratory procedures. III – As above plus first class hospitalisation and ambulance service.
Premiums	Family of four pays annual fee of Ush.108,000 ($62) or six monthly fee of Ush.67,000 ($38) Additional family members over 16 pay Ush.36,450 ($21) annually or Ush.19,238 ($11) every 6 months. Children (Under 16) pay annual fee of Ush.17,550 ($10) or Ush.9,263 ($5) every 6 months.	I – Tsh.10,000 ($12) per person. II - Tsh.20,000 ($24) per person. III - Tsh.150,000 ($176) per person.
Identification	Each member gets ID card. It is not transferable. Charge for replacement if lost.	Each member gets a free identification card.
Co-Payment	Registration fee of Ush.1,000 ($0.57) - Ush.1,500 ($0.86) per visit.	

	Microcare Health Plan – Uganda	**Poverty Africa's Heath Scheme – Tanzania**
Exclusions and Limitations	Dental surgery, some elements of optics, intentional self-injury, mental illness, infertility, alcoholism and chronic illness, long-term care and medication of chronic illness.	

Both programmes provide one stop and accessible health services. In Uganda, clients expressed "a feeling of security that they were saved the risk of debt when struck by sudden illness" (Sebageni, 2002). However, there were some elements of these insurance products that clients found lacking. Dissatisfaction in Tanzania centred on the low quality of health services provided under the scheme. Among Microcare subscribers in Uganda, the lack of coverage for certain diseases[23] and the limit on the number of family members, including orphans that could be covered by the household budget, had led to exit from the scheme. Some subscribers have very large families and find it hard to decide who should be included and excluded.

Despite these shortcomings, the reduction in the vulnerability of poor households to health shocks was a clear positive benefit of participation in a health insurance programme. At the same time, client criticisms highlight challenges in introducing health microinsurance. At the top of the list is the difficulty of matching the quality of service and the level of coverage that can be provided by the health service provider within a premium that is affordable to the poor.

In Nepal, when offered the possibility to having health insurance, women and men in a poor rural area felt that such expenditures would be wasted since none had ready access to appropriate health services (Simkhada, 2000). A second issue, and one that is a recurrent theme in many developing countries, is the unavailability of drugs. Said one of the participants in the focus group discussion, "S*ometimes you go to the (health service) provider, who prescribes the medicines and asks you to come later today or tomorrow to collect the medicines*!!" said one of the participants in the focus group discussion A third issue concerned the lack of clarity in the materials meant to explain the insurance programmes to its subscribers. Mixed messages meant that some members are unclear about their benefits and their rights. Clear and transparent information and the need for client education on the concepts of insurance emerge as a continuing priority need for this sub-sector of financial services.

Tanzanian respondents, who opted not to become members of Poverty Africa's Heath Scheme, provided other insights into the enormity of the challenge:

- **Affordability remains a problem.** The cost of premium is high for a family of five people and the poor. Module I, which only provides basic services, costs Tshs.50,000, payable at once.
- **Health service quality.** People would prefer to join programmes with reputable service providers.
- **Bad experience with the national health service providers**, or in Tanzania, the National Insurance Cooperation makes people sceptical of any insurance programme.
- **Geographical coverage.** No clarity on how people will be served if they have an accident outside the programme's catchments area.
- The **waiting period** of one month after payment of premium is perceived as too long (Millinga, 2002).

3.4.6 Informal group-based mechanisms

The informal group-based mechanisms reflect a wide range of financial services open to and accessed by the poor, most of who earn a living in the informal sector. Aside from *harambees*, which will be discussed below, most provide access to only small amounts of money. Some, such as burial societies, 'Friends in Need' and Church groups, represent membership associations that involve reciprocal relationships. Their role in helping their members manage health shocks lies primarily in their pooling of resources. As observed above in the discussion of informal mechanisms accessed in time of death, dues payments as well as labour commitments determine a person's ready access to these resources in coping

[23] Excluded are high blood pressure, diabetes and ulcers, all diseases identified by respondents as on the rise.

with emergencies. Their comparative advantage lies in making available small amounts of cash in a timely manner. Their most effective use is for drugs, outpatient services, and transport when an emergency presents itself.

Family and friends are also an important source of funds to cover health needs. This source usually is more effective in providing small amounts but less effective in providing large amounts. Receiving help from friends and relatives depends on reciprocal relationships, and there is a reluctance to tell friends when you know that you lack the capacity to respond in kind. This is a situation exacerbated by the HIV/AIDS pandemic. Similar to natural disasters such as droughts or floods, in places where HIV/AIDS infection rates are high, it can be viewed as a covariant risk that affects large groups of people at the same time. With a majority of households confronting the same burdens of care and loss, reciprocal support networks are weakened.

The word *harambee* comes from Kiswahili meaning 'to pull together". *Harambees* are essentially fund raising events organised when most of the other means for accessing cash for health, education, or other emergency needs have failed, and the amount of money needed is large. They are commonly held to raise funds to cover large hospital bills or surgery. Their success often depends on one's social class, and herein lies their limits for the poor. Richer people will attract other richer people to a *harambee* and the poor will attract their own. On occasion, *harambees* have been known to cost more (card preparation, booking the venue, food and drinks) than the amount of money raised (Mbaisi and Ahmed, 2002).[24]

3.4.6 Self-insurance

Self-insurance strategies have always been and continue to be a major way the poor and the uninsured cope with health shocks, big and small. To the extent possible, current income is used for small expenses. But as the example from Tanzania above makes clear, even the purchase of drugs is beyond the capacity of many poor households. When treatment is not possible, delay follows, and with it come other risks which can have costly repercussions, the ultimate being death.

Capacity to pay for health care is not influenced only by level of income but by when the income comes in. A review of the seasonality of both illness and income flows over the course of the year suggests that seasonal cash flow affects the ability of households to deal with health risks. In all three countries, the high period for illness, March through June, coincides with the low period for cash inflows.

Among those that seek health care from hospitals, another form of self-insurance hospitalisation is running away. Hospitals say that up to 15% of their in-patients run away, or through some other manner, do not pay.

A majority of the respondents covered by this study are clients of microfinance institutions. Most access loans and deposit savings as part of a contract to protect the loan. None appear to have access to emergency loans from an MFI even though it appears to be a product for which there is a high potential demand. In some of the focus group discussions across the three countries, respondents suggested that withdrawal of these and other savings was a possible strategy for paying health expenses. The loan use interviews offered further explanation, indicating that savings withdrawal is at best a secondary strategy. Among the clients interviewed who had liquid savings, very few used them as the first coping strategy for covering health costs. This unwillingness to draw down savings until other options have been explored also corroborates the findings of other studies (Sebstad and Cohen, 2001).

---

[24] *Harambees* were seen in Kenya's 1986 National Plan (Sessional Paper No. 1) as one of the premier mechanisms to address income inequality and part of the national policy for income redistribution. It is interesting that they are no longer seen this way – suggesting a breakdown in the 'cross-class' aspect of this traditional risk pooling mechanism. As per various papers on informal risk pooling, they often do not involve people at different income levels, because by nature they imply reciprocal relationships that poor people cannot keep up with and wealthier people cannot depend on. However, they appear to also be very context specific – in some places, some kinds of informal groups (depending on function) may be more likely to cross classes. In the case of *harambees*, they are very 'event specific', and so the idea that they do not cross classes may not be a statement that can be generalized or that always holds. Rich people are sometimes more inclined to contribute small amounts to *harambees* held by poor people than large amounts expected when they attend *harambees* of other rich people. Also, *harambees* for all different classes are often attended by politicians – for political purposes -- who contribute large sums with a lot of fanfare.

The use of micro credit to meet emergency needs was more common among study participants. Clients sometimes split the use of the loan between productive investments and household expenses such as health or school fees. In cases where financial pressures were high, they allocated the full loan amount to health. All too often, however, the loan was not enough (see box).

While loans can permit access to lump sums of cash, a major drawback of borrowing is that it places a claim on future income flow and, depending on the amount borrowed and repayment terms, this can have a negative impact on the future well being of the family. Furthermore, the more expensive the form of credit, the greater the future claim. This is a major 'repercussion'. An important advantage of insurance is that making a claim does not mean you have any future commitment.

> Mary, a cooked food vendor, borrows from an MFI. She has Tsh.16,000 ($18.82) deposited at the National Microfinance Bank and saves Tsh.1,000 ($1.18) weekly with the Presidential Trust Fund. At the time of her third loan she was confronted with a sick mother who had to be admitted to hospital. The cost was Tsh..35,000 ($41.18). She used her loan money and part of her business profits to pay the hospital bills. To repay the loan she sold her stock of rice. To increase her capacity to cope with future emergencies she has joined a 'Friends in Need' group which assists their members when faced with such emergencies. Her joining fee was Tsh.35,000 ($41.18) and monthly dues total Tsh.500 ($0.59).
>
> Sylvia has a local brew shop. Her savings account with Tanzania's National Microfinance Bank has a balance of Tsh.70,000 ($82.35). At the time of her third loan, she fell sick and was admitted to hospital for three weeks. She used the loan to pay her hospital bills of Tsh.40,000 ($47.06) and repaid the loan gradually by drawing down her National Microfinance Bank savings
>
> (Millinga, 2002).

The above examples suggest another strategy, to borrow against savings for emergency purposes, and draw down savings to repay these loans. This indirect use of savings to cover expenses reflects two practices that warrant consideration in the context of developing microinsurance. The poor save in good times so they can draw down their reserves in bad times but rarely is it earmarked for specific risks. In Kenya the FGDs did not elicit purposeful statements that people saved for health care expenses. Indeed, one participant noted 'saving for medication would bring bad luck to the family'. A second key issue is the protection of savings at the expense of other demands on the money. For the poor, the accumulation of savings is a long and arduous process. This precious reserve is guarded at all costs as a resource to be converted in the future into other assets, particularly housing, equipment or livestock.

Mention was made earlier of formal savings, particularly those held in commercial banks, post banks and with MFIs. While many of those interviewed have such savings, the research indicated that many clients also hold a high percentage of savings informally and use these sources of funds to pay for small emergencies depending on the urgency and accessibility of the funds. The sources include ROSCAs and ASCAs as well as lock boxes '*Vibubu*' or just 'under the mattress' kept at home, and in kind resources. We also know that in many countries, animals are earmarked for future needs (see Table 8).[25] Each varies in degree of liquidity, the amounts tend to be small and these savings are not particularly secure.[26]

[25] In the Philippines large animals are held as investment to pay for high education (Chua et al., 1999).
[26] 99% of clients in Uganda lost informal savings compared with 26% and 15% respectively for semi-formal and formal savings accounts (Wright, Graham A.N. and Leonard Mutesasira, 2001).

Table 8: Savings Portfolio: Prudence from Karatina, Kenya

Savings Source	Contribution	Payout
ROSCA 1	4 members, daily dues of $0.29	$26.60 per month
ROSCA 2	4 members, weekly dues of $2.90	$11.60 per week
ASCA	40 members $1/week	Can borrow anytime
Informal funeral Insurance Fund	100 members, monthly dues of $11.40	Covers funeral costs for immediate family
Cash at home	$3-5	When needed
Savings in livestock	Cow in village	Provision for old age

Source: Wright, 2002

ROSCAs can permit members to obtain larger sums but timing can be a constraint if one is unable to gain priority on the payment schedule. In Kenya, ASCAs and moneylenders provide members access to credit to meet emergencies, but interest rates are high. The upside of the 'shylock' is ready access to cash without any membership requirements; the downside is that the money is short-term and costly – the two-month interest rates can average 30 percent (Mbaisi and Ahmed, 2002).

The sale of assets is a common coping mechanism used to mitigate and manage health risks. In Kenya, households normally purchase items such as bicycles and/or animals for such purposes. They either sell them, often at liquidation prices, or use them to get loans from loan sharks. The resulting cash is used for medical expenses (Simba, 2002). Consumer durables such as fans, TVs and stereos are bought with the knowledge they will be traded in times of emergency. However, the bicycle is a little different. It is valued as a means to transport the sick to clinics or hospital. In the context of coping mechanisms for managing health risk, a bicycle can be viewed as a key productive asset whose importance is greatest with distance from a health service provider and in rural areas in particular. In Kenya pledging land titles as collateral to cover hospitals costs is another asset-based coping strategy. Patients sometimes use title deeds to negotiate monthly payment arrangements. Upon completion of payment the land title is returned to its rightful owner (Mbaisi and Ahmed, 2002).

3.5 Property Loss

3.5.1 Introduction

Asset loss due to fire and theft is a common risk in both rural and urban areas in East Africa. Usually, these shocks are totally unanticipated and sudden and are perceived by many people as the most costly shock. They can disrupt the ability of the affected households to generate income and often require an immediate reallocation of household resources to maintain a cash flow or replace the lost assets.

> *"When one suffers a theft, your business can be completely ruined."*
>
> *"Your creditors will not sympathise with you when you are robbed. They still want their money back."*
>
> *"In cases of theft, you can be seriously injured or killed"* (Sebageni, 2002).

Property loss with its wide range of shocks poses many challenges to insurers:

- Categorisation of the loss and/or specifying what is covered and what is not in the policy.
- Verification or validation that the loss was a result of theft or fire.
- Valuation of the loss. In terms of coverage, there is need for clear guidelines for validating claims, and valuing the loss.

The policy needs to define what items are covered, what portion of the loss is covered, the replacement cost, depreciated value, how these will be determined and by whom.

In all three countries, times series analysis indicates a rise in the frequency of fire and theft. In Kenya and Uganda, urban respondents noted that a decline in economic opportunities is translating into increased crime rates. Crime is highest around Easter and Christmas, the high expenditure periods of the year. The greater incidence of fires was attributed to a range of factors including overcrowding in urban markets and slums, a decline in building code standards, as well as a rise in the incidence of arson. In Uganda, clients noted that that the Uganda Electrical Board was privatised in 2001. Not only did rates

rise soon after, so did the volume of illegal connections. In rural Kenya and Tanzania, property loss in the form of stolen livestock and crops can have dire consequences for the food and income security of households that depend on farming.

For microfinance clients a persistent fear is theft of money. Kenyan clients noted that this dread was well founded since this is a familiar experience with equally familiar consequences, financial difficulties in repaying a loan. *As she arrived home from the bank with her sixth loan of TSh.300,000 [$ 353] Shabia's money was stolen. Repayment became very difficult. She has to sell her stock of charcoal at a loss to meet the weekly loan repayment obligations* (Millinga, 2002). This burden repeats itself when the loss occurs mid-cycle and the group repayment is stolen leaving the members to replace the debt and pay late repayments penalties.

3.5.2 Immediate impacts

In most instances, the losses from fire are total and very little can be salvaged. Major sums of money are needed to replace the lost assets and get microentrepreneurs back on their feet or to enable a low-income family to rebuild a home burned to the ground. A measure of the perceived severity of this risk is reflected in the comments of respondents from Tanzania who noted that *"property losses in urban areas can equal a household's lifetime savings."* In rural areas, the loss of a year's harvest from fire or theft translates into household hunger.

For urban residents the immediate impacts of fire and theft focus on the loss of productive assets and the loss of places and work and residence. While theft is frequently an individual event, fire often affects many people in the same neighbourhood or market place at once. Fires in market stalls were mentioned in all three countries and affect many people at once. Fires in high-density slum neighbourhoods such as Kibera in Nairobi spread easily and affect many.

The immediate impacts of the loss of assets due to fire and theft occur at several levels. Firstly, there are the replacement costs of the equipment, the rebuilding of stalls and stock. In the case of destroyed housing or buildings there is both the cost of replacement as well as the expense of securing alternative workspaces and residences, either temporary or permanent.

While many of these shocks are single events, it is also clear that some businesses are more vulnerable than others. Vendors of consumer durables or equipment with high resale value such as TVs, bicycles and radios, appear to be particularly vulnerable to theft.

> *"They take the TV, radio …and they mostly take electrical items as they are expensive."*
>
> *"When thieves invade your business premises, if you have a computer it will be the first thing to be stolen as it will fetch a lot of money."*
>
> *"They steal sewing machines and when they do this for a tailor, what will you use for sewing? It will mean buying another machine and you do not have the money to do this unless you take another loan which is the only alternative"*
>
> (Mbaisi and Ahmed, 2002).

For many, theft is not a single occurrence but a repeated event that can make getting back on one's feet an uphill battle. Depending on the type of business, the impacts can be major. For example, Mr. Stanley Mbaga of Mwendapole Village in Kibaha District, recounted that thieves broke into his shop three times last year. As a result of the thefts he had to liquidate his savings and borrow from two organisations, namely SWISSAID and Community Based Initiative (CBI) to re-start his business. This resulted in an increase in the size of debts for the household. Mr. Stanley had this to say, **"***I am just praying that I will be able to repay the debts before I die, and I hope that thieves will not come again and steal from my small shop.***"** (Millinga, 2002)

Both theft and fires can result in bodily injury and, even worse, loss of life. In some cases, theft may be accompanied by rape or other violence. Among the impacts of theft and robbery identified in Tanzania were the physiological sufferings that can stem from rape that can accompany a robbery.

If an income earner is disabled, this has a major effect on the household. Many of the impacts fall into the category of medical costs, placing the appropriate discussion of this issue in the context of health shocks. However, there also is the cost of retraining if the disabled person needs a new skill to earn a living. This issue receives little attention in the context of development policies and development in all three countries, although the need is well recognised by the respondents.

In rural areas, a single theft or fire can mean hunger over the next year. Similar to urban areas, fires can affect several farms at once. Crop theft is also a problem. In Tanzania, for example, the theft of the crop before or harvest is commonplace and can be devastating to families.

3.5.3 Secondary Impacts

The replacement of lost assets is a primary and obvious impact of both fire and theft. A broader impact relates to the decline in the earning potential of the household when one of its businesses is destroyed. This translates into a rapid decline in well-being: children may be withdrawn from school, food consumption may be modified and food insecurity rises.

There is a psychological cost linked to the loss of a business or a home. In Tanzania and Kenya, respondents observed that theft, robbery, and violence is psychologically traumatic for microentrepreneurs, who are thrown back into unemployment; uncertainty; unstable and low income flows; and indebtedness, everything that many have worked hard to escape. Itugi in Oljoro Orok, Kenya, commented that fires led to a loss of identity in addition to loss of the source of livelihood:

> *"When you lose your business you do not even know yourself."*

In summary, fire is not all that common, but it can be devastating. And it usually affects more than one business or household at the same time. Theft is more common, and the losses are more variable, sometimes small, sometimes large, but generally not as devastating. Theft is often accompanied by a sense of violation and psychological trauma. It is sometimes accompanied by violence and bodily injury. It usually happens to one person, business, or household at a time, rather than many at once.

3.5.4 Coping Mechanisms and Effectiveness: Precautionary Measures

Precautionary measures to protect against theft and fire ahead of time vary in their effectiveness in protecting against these risk events and can never be relied upon to prevent them altogether.

For most households, their experience with fire is a single shock, often caused by arson. In many cases, the numbers of people affected are large, rather than an individual household. The other frequently cited cause of fire was wiring that was below standard. This is commonplace in low-income settlements where access to electrical sources is only possible by pirating connections and little attention, if any, is paid to code requirements. Operation Sigma was introduced by Uganda Electricity to stamp out the long-recognised problem of illegal electricity connections. The Kiwatule Women's Group (KWG) indicated that Operation Sigma has been somewhat effective in reducing the incidence of electrical fires generally. They also felt that overall there had also been an increase in trends of fire outbreaks over the years. They argued that to a large degree these fires could be attributed to the high volume of large-scale construction accompanied by an increase in illegal connections over the years, the very problem SIGMA was set up to address.

For theft the situation is the opposite, the shock affects individual households rather than large numbers at once. Most of the theft, including the stealing of MFI client credit funds and repayments, affects individuals. For many, a limited number of precautionary measures are used to protect against theft (Table 9). All except the owner sleeping in her/his own shop require expenditures of money, which many respondents find costly.

Table 9: Precautionary Measures to Protect Against Theft

Precautionary Measures	Effectiveness
Jua kali (informal sector) welfare association at place of work (markets) – workers contribute to assist victims of theft	Group-based coping strategy for theft.
Vigilante groups in slums	Used as limited alternative to the lax security provided by the police. The 'effectiveness' of this strategy is limited in several other ways: vigilante groups may be problematic if they do not follow the rule of law; they can wrongly charge or punish innocent people; they themselves become thug-like gangs that extort money from residents; they may not protect everyone; by taking law in their own hands there may be other social costs in terms of breakdown of the rule of law; the youth who do this work sometimes get into trouble with the law. To increase effectiveness, the youth need to be paid.
Hiring of night watchmen individually or by group of microentrepreneurs	Commonly done among those operating stalls in open areas.[27] Watchmen are expensive and sometimes accused of collaborating with thieves. Only possible if there are several shops at the same location.
Burglar proof doors and windows	Burglarproof doors and windows are expensive and not foolproof. Thieves can and often do cut through rods.
Self-Defence: Sleep in shops	This is believed to be very effective. In urban areas owners are sometimes armed. Used in rural areas in Kenya where closely-knit communities makes this a very effective deterrent.
Dogs	One respondent noted that their effectiveness is limited: "We never heard of dogs stopping thieves." (Simba, 2002)
Security guards at group meetings and to accompany treasurers when making deposits at the Bank	This is growing in frequency of use.
Ensure proper wiring in building	Very effective protection against fires.

3.5.5 Coping Mechanisms and Effectiveness: Ex Post Responses

Capital plays an important role in getting a microentrepreneur back on her/his feet after a theft or fire. The financial pressures stem from the loss of income, costs of replacing equipment or building new work premises/house, the need to finance the repayment of outstanding loans, and the need for capital to meet daily needs or buy new stock to get back on one's feet. Given the high costs involved, the options facing an affected person and/or household are few.

a. Formal Insurance

The poor continue to lack access to formal insurance to cover property loss resulting from theft and fire. The Faulu Insurance policy covers both death and catastrophes. The latter includes the loss of assets as a result of either floods or fire. It does not cover property loss from theft. With only a few clients having made claims on the catastrophe component of this insurance it is not surprising that among clients as well as the population at large there is considerable scepticism of the real value of property insurance as it is currently offered. Property insurance tends to be seen as a product for the rich.

Validating and verifying the causes of property loss remain difficult. The paperwork poses one type of challenge. There is also the heavy cost of getting the police to write the report for submission to the insurers. Another widespread problem noted by Kenyan clients is that this type of insurance is associated with rampant fraud. Reference was made to insurance people colluding with people to stage robberies. Under such circumstances, moral hazard remains a continual challenge in determining the viability of such insurance.

[27] In Kenya members of the group contribute Ksh.100-200 per month. In Tanzania communal security services are known as "*sungusungu*''.

b. Informal Group-based Insurance

As indicated in Table 10, the poor use a range of informal group-based risk sharing systems to provide protection in case of fire or theft. Increasingly, neighbourhood businesses share this risk by hiring guards as precautionary measures.

Market vendors often participate in benevolent associations, which help their members cope with loss with payouts, not unlike the burial societies. However, over the long run informal group-based insurance is limited, particularly for shocks such as fire that affect many people at the same time.

c. Self-Insurance

For fire and theft, self-insurance defines the key mechanisms currently in use to manage loss. At one level, microfinance loans are an accessible source of funds for restocking after a fire or theft. Their productive use assures repayment from future cash flow. However, in all three countries clients find themselves in competitive environments without much product differentiation and an absence of short-term emergency loans. This rarely translates into ready access to money when needed. Thus, accessing loans from multiple MFIs is a risk management strategy for some households. Staggering the disbursement dates is seen as a way of gaining access to timely lump sums of cash and overcoming many of the rigidities that currently characterise the industry.

Membership of more than one MFI is as much a protection as a loss management strategy. Participants explained that membership in another MFI *helps* a lot when one is faced with a problem like fire. They explained that some MFIs write off their clients' loan balances if they were victims of fire. People are therefore tempted to belong to more than one MFI as a precautionary measure against such. They explained that in fact some of them are members of two MFIs as they can be able to get a loan from one MFI to repay another loan from another MFI in circumstances where they are faced with problems requiring a lot of money.

A Client's Confession About Loans

John is a microfinance client in Kibera. He was a victim of late last year's (2001) Kibera clashes. His business was affected during the clashes. His house belongings and business goods were burnt down. Further, people took advantage of the situation and stole the remaining of his goods during the clashes.

He found it difficult to repay the loans he had as he had two loans from different MFIs. However, one MFI wrote off the loan balance as it was insured (fact from participants) and was given another loan to re-establish his business. This really helped him a lot. In fact, participants claimed that the new loan has really assisted John as he is using the same loan money to repay the other loan from the other MFI, which did not write off the loan balance after the Kibera clashes. Participants explained that they often take two loans from different MFIs without each other's knowledge to cope with crises that they face

(Mbaisi and Ahmed, 2002).

However, microfinance funds inevitably come up against the constraints of coverage in relation to need. Rarely is a single microfinance loan sufficient to cover the major asset losses that result from theft and fire, although they do help in providing smaller amounts of capital that help get clients back on their feet. Often women will simply start another business if the capital was not enough to return to the old business (Email: McCord, 2003).

In the absence of very many specific mechanisms to cope with property loss, most of the poor must rely on income flows, savings, borrowing and asset sales to cope. However, rarely are the funds available from income flows or savings or accessible from borrowing, asset sales, or family and friends adequate to meet the full costs of recovery. Yet, patching together multiple sources of money to help people recover

once the immediate impacts of the crises have been met is really the main strategy people have to deal with property loss. The effectiveness of this strategy varies widely, depending on the size and nature of the property loss.

> As a result of the fire in Mbarara market at the beginning of 2002, Sarah's shop was burnt to the ground. Faced with her unpaid debt with FINCA she was fortunate enough to be able to borrow from her husband and a friend (Ushs.500,000 at 5% interest). With this money she was able to clear her FINCA loan and then get another one to restart again. She also withdrew some savings from Centenary Bank to cover part of her losses.
>
> Byarugaba recently experienced a theft. Thieves attacked her house and stole Ushs.150,000 that she had put aside to pay her suppliers and the rent on her craft shop. To manage the crisis, she borrowed from another MFI Ushs.200,000. Meanwhile she kept selling and used her sales revenue to repay her suppliers and debtors.
>
> (Sebageni, 2002).

While self-insurance may be the prevalent precautionary and loss management strategy used in face of loss from fire or theft, it has serious limitations. However, it is precisely these weaknesses that suggest the opportunity for microinsurance to cover asset loss. Simple as it sounds, it is a formidable challenge and will only be possible if the enormous 'moral hazard' issues can be appropriately and effectively addressed.

3.6. Differences by Gender, Poverty and Wealth Level

3.6.1 Gender dimensions of risk and risk management

Women feel that they are more vulnerable to risks than men. In Tanzania, death of a husband was among the top four risks respondents identified. With fewer assets, with less control over assets compared to men, and in the absence of ways to exercise their legal rights to own assets, women are forced to develop complex risk management behaviours. Women belong to more than one informal insurance scheme. In addition, they often borrow from one or more MFI as strategy to protect themselves against future risks or to have timely access to lumps sums of cash when an emergency demands it.

"Most women do not know that they are entitled to some of the property after divorce. They separate and go on with their lives without seeking legal action to have some of the property that they owned together with the husbands. They explained that they are normally left with the responsibilities of looking after the children while the man remarries almost immediately. They further said that the business might collapse if it was the woman running it, as she will no longer be able to do this and it affects loan repayment as most of the women are microfinance clients. Below are some of the comments from the participants:

> ***"****They chase you away and don't want to see you, they take everything from your business and use it. The shop now becomes his and nobody will know that it was yours (the woman's)" "*
> (Mbaisi and Ahmed, 2002).

Women are more vulnerable than men to certain types of risks. As noted, death of a breadwinning spouse can leave women destitute. This loss of a partner is further compounded by their weaker coping mechanisms. The gender division of labour places women at a disadvantage in the labour market and inheritance laws may dispossess her of assets based on the often erroneous assumption that she will be taken care of by the husband's family.

Women face some specific health risks that men do not:

- Gender violence/rape that often accompanies thefts.
- Maternal health issues, certain types of illnesses.
- HIV/AIDS transmitted in context of sex within marriage if the husband is HIV positive.
- Powerlessness of married women (especially when women are younger in age than their husbands) in their relationships to say no to sex, or insist on condoms.

Women are vulnerable to theft in a different way than men. In terms of precautionary strategies, women may be forced to limit their mobility (areas of business operation) or close their businesses during daylight hours as precautionary measures to avoid thefts. Another example of women's more limited options to mitigate risk, the most effective strategy to reduce the chance of a business robbery – sleeping on the premise – is an option open to men, but not women.

Institutionally women also face differential access to services. Among the informal group-based insurance options, some welfare societies are gender specific. Among groups focused on men, participation in some groups requires a sense by the group that a person will not only be able to contribute regularly but is also somehow socially connected to the group. On this basis, women- headed households are inevitably excluded. While self-insurance may be the only alternative available to many women, it is also a weaker option for women than for men. Being resource poorer they have less control of assets, fewer financial and other resources, a more limited ability to access credit and lower incomes.

3.6.2 Rural/urban aspects of risk and risk management

There are some differences in the nature and impact of risks between rural and urban communities. In urban areas, death, for example, is accompanied by financial stress mainly because they have to meet high costs of transporting the dead to their places of origin. For rural people, death may not be as financially stressful because there are few transport costs and the costs of the funeral is often shared by the community, both financially and by contributing labour, animals or farm produce.

3.6.3 Wealth Level Differences

Everyone needs insurance. However, in all three countries formal insurance is viewed as the province of the rich and affordable to only the top 10 percent of the population (Sebageni, 2002). There is a perception that the wealthier one becomes, the more assets one owns, the more likely one is to participate in a formalised any insurance scheme. It is however also true that the more wealthy one is, the more likely they are to solve their emerging crises without resorting to seeking help from anyone.

Yet, in both the rural and urban areas, rich and poor participate in many of the informal insurance mechanisms, particularly the burial societies. However, even these group-based mechanisms can be unaffordable for the very poor who find it extremely difficult to provide even two meals a day. The value of the diversity of welfare associations goes beyond just covering the financial costs and includes reciprocal relationships that are integral to the social fabric. Other informal mechanisms, such as *harambees* in Kenya, are more segregated in their organisation. They may perhaps view some of the groupings as being beneath their social status.

All wealth levels are subject to the three risks discussed -- death, illness, and property loss due to fire and theft. Limited protection against shocks extends across a broad spectrum of the population, from the vulnerable non-poor to people below the poverty line. There is some sense that higher wealth groups can afford to take more precautionary strategies to avert illness and to protect against property loss due to theft and fire. For poorer segments of the population, risk management strategies are primarily focused on managing a shock after its occurrence and recovery to a level that will provide for the household's subsistence.

Higher wealth groups have more options for coping with risks. They have access to multiple strategies that are lower stress. They may have formal insurance, may be part of informal group-based systems, and definitely have more resources at hand to self-insure. At the top end, the not-so poor households also tend to have sufficient reserves to handle the small expenses such as basic outpatient services, drugs and transport to a clinic or other health services. But even some of them are beginning to feel tested. The removal of subsidies on drugs and the imposition of user fees are eroding the affordability of basic health care. While the study findings show that the rich had many ways of dealing with crises, many of them agreed that some kind of cushion is needed. Repeated stresses such as chronic diseases (HIV/AIDS, diabetes) or when many members of the same household fall sick can be overwhelming. To cope with death, rich people also join welfare associations. Not only does tradition influence this pattern of behaviour, but also status and income level require that the financial burden of burying the dead in their ancestral homes can be quite expensive.

For the moderate poor, all of these shocks pose a burden. The high costs of hospitalisation, long-term illness and property losses bring with them costs that are way beyond the cash flow capacity of most poor households. The repercussions that follow from the immediate impacts of the shocks add to this pressure. Getting back on one's feet, keeping children in school when cash flow is minimal are all heavy burdens that must be addressed. Lower wealth level groups are likely to depend more on informal group-based insurance and self-insurance than formal insurance. It is no surprise that borrowing is a key strategy that many moderate poor use. The pressure of debt hangs over many of the poor and they see little way to escape the poverty trap.

The very poor have fewer options in coping with the loss of a family member, caring for a parent suffering a long-term illness, or recovering after a fire or theft. They are likely to depend almost entirely on self-insurance, as they fall out of informal group-based systems if they cannot keep up with the reciprocal obligations. In the absence of state systems of social protection they are likely to depend almost entirely on high stress self-insurance mechanisms (pledging labour, borrowing, selling assets). With limited resources, self-insurance is likely to be grossly inadequate and cause stress. They must make do with what is on offer. Some are lucky but many remain in debt, permanently in a race to stay one step ahead of the next shock. They move from crisis to crisis, always in a reactive mode.

For the client population surveyed, the risk of falling into poverty as a result of a shock is ever present. Vulnerability is relative. In the end, the effectiveness of any of the coping strategies discussed above depends largely on the size, nature, and frequency of the loss in relation to the income level and resource endowment of the household. The relationship between assets and risk management is complex. Shocks draw down reserves that are hard to accumulate and can readily return a person to the poverty which they may have thought they had left behind. The need for microinsurance is obvious. There are many lessons that can be drawn from the informal systems in place and the self-insurance practices. The challenge is making it a reality in a manner sustainable to all partners.

Yesterday's Poor … Today's Poor
(It could happen to you…. even you)

Unlike most microfinance clients, Mrs. Muwanga had limited experience working in the informal sector when she received her first loan from the Uganda Women's Finance Trust (UWFT). Her husband was a lawyer and provided well for her and their children, who were enrolled in boarding schools and Makerere University. They lived comfortably in a five-room house. In April 1997, however, her husband suffered a stroke and since then has been unable to work. They have withdrawn the children from school and university, and Mrs. Muwanga finds herself the major contributor to the household. Her first business venture was the baking and sale of cakes. She made a small profit on her first loan of Ush.80,000. During the second loan cycle, she was less lucky. She purchased some bad flour and had to withdraw her savings and sell off her cooker to repay the loan. After this experience, she leased school canteen space and has begun a new business providing food and snacks to the children and their teachers. Mrs. Muwanga also participates in a rotating savings and credit association (ROSCA), which operates within her UWFT group. She used her ROSCA funds to finance a poultry business, but this also failed because of an epidemic

(Sebstad and Cohen, 2001).

4. Reducing Vulnerability with Insurance: Client Perceptions and Preferences

4.1 Introduction

The research shows that not only are poor households aware of their vulnerability to risk, but they are willing and do pay expensively to protect against these risks. Moreover, they are usually paying *ex post* to recover, not paying in advance to protect. They are all too often paying after the event, precisely because they do not have access to effective insurance options to protect their assets.

As they seek to avoid losses, maintain hard won gains, and move out of poverty coping with risk remains an on going challenge. Impact studies of microfinance clients indicate that access to credit can increase income and assets, albeit slowly (Dunn and Arbuckle, 2001; Chen and Snodgrass, 2001 and Barnes, 2002). The findings presented above point to the ease with which these assets can be lost when confronted with a shock. To date, the poor have limited options for mitigating risks. A variety of pre-emptive measures are used to retain, reduce, share and transfer risk. When taken prior to the stress event, they can minimise both the chance of the stress occurring and the impact if it occurs (McCord, 2001). In the absence of such measures, they depend on *ex-post* strategies such as asset depletion whose long-term effectiveness is limited.

Accessing microfinance services increases the risk management choices and can play an important role in empowering the poor, especially women. Credit and savings services offered by microfinance institutions can reduce vulnerability to risk by contributing to increases in income, diversification of income sources, and asset building. Access to microinsurance could enable people to move into an even more proactive mode, and reduce the stress often caused when people deplete savings, borrow, or sell assets to deal with shocks after they occur. This economic freedom, often taken for granted by those with secure incomes, is a huge gap in the lives of the poor. Economic freedom means not only greater economic security, but also the personal growth in self-esteem and self-confidence. These enhancements come from managing one's own money and the freedom of having choices.

At this time, the formal options to reduce the vulnerability of the poor to risk seem limited. Microinsurance in the form of the downscaling of commercial insurance products is being tried within the region with varying degrees of success. One form of life insurance includes loan protection and payments of varying cash benefits. But is it highly in demand? The voices of the respondents we heard from suggest a resounding yes.

Aside from life and health insurance, none of the risk management tools discussed above is new. Most have been well honed over the years. They are not static mechanisms but have evolved to respond to new diseases like HIV/AIDS, new pressures such as the privatisation of segments of the health system, changes in the financial services market, and changes in the costs of shocks relative to income.

Largely un-addressed by any of the risk management tools that the poor use is the provision of resources to recover, once the immediate impacts of the shocks have been addressed. This is especially central to the capacity of women to recover from the loss of a spouse, illness of a loved one or the loss of productive assets through fire or theft. Where they lack the right to own assets in their own name, property insurance makes limited sense. The laws of inheritance can leave them without their house or any productive assets, including those they have earned. It is no surprise that a single shock can quickly return a woman and her family to destitution, and with it the loss of many less tangible gains such as self-esteem and educated children, whom she had hoped would assure her an income-flow in her old age.

As we seek to identify appropriate risk management models, we need to revisit the effectiveness of the 'established' ways people protect against risks and cope with shocks. We need to assess what works well for the poor of today and what does not. It is just this type of sleuthing that led to the emergence of the new world of microcredit. Of course, no one strategy can ever be 100% effective, just as no risk is 100% preventable. What microinsurance can hope to do is to soothe the wounds of risk rather than healing them (Sebageni, 2002).

Table 10 depicts poor people's perceptions of their insurance/risk management landscape and its effectiveness. Effectiveness here is addressed in terms of three components: coverage, accessibility and timeliness. Each risk management tool is evaluated in these terms. The latter part of this section draws together some lessons from the both self-insurance and informal group mechanisms which could be incorporated into the development and delivery of formal insurance products.

Table 10: Respondents Insurance/Risk Management Landscape and Perceived Effectiveness

Insurance/ risk management mechanisms	Risk	*Ex ante or Ex post*	Terms and Conditions	Effectiveness		
				Coverage	Accessibility	Timeliness
SELF-INSURANCE						
Low-Stress Coping Strategies						
MFI	Death Sickness Fire	*Ex post*		• Advantageous primarily when person has access to multiple loans from MFIs. • Savings accounts often too small. • Few MFIs offer short-term emergency loans.	Function of whether savings account is mandatory or voluntary.	• Depends on place in loan cycle - unavailable if between loans. • Depends on type of savings account.
ASCAs, ROSCA	Fire Sickness	*Ex ante*		Loans and savings services vary by ASCA and ROSCA.	• ASCAs collateral requirements can be an obstacle. • ROSCAs may not offer large enough payouts. • ASCAs can be good for emergencies.	Depends on place in loan cycle - unavailable if between loans.
Change behaviours[28]	Death Sickness Fire	*Ex ante*		• Depends on quality and supply of existing heath and utilities infrastructure. • Cheaper schools may have lower standards.	Services may be available in urban and peri-urban areas but scarce in rural areas.	
Writing a will	Death	*Ex ante*	Requires multiple persons to hold copies of the will.		• Illiteracy and few legal support services limit the ability of women to write wills and exercise their rights. • In face of harassment from in-laws and cost makes a will difficult to enforce.	Legal process cumbersome.

[28] Seek early medical treatment; keep out of trouble; maintain good business relationships, turn off electrical appliances; buy fire extinguisher; hire security guard. Also includes use of condoms and mosquito nets.

Insurance/ risk management mechanisms	**Risk**	***Ex ante or Ex post***	**Terms and Conditions**	**Effectiveness**		
				Coverage	**Accessibility**	**Timeliness**
Medium-Stress Coping Strategies						
Loan from Money lender	Sickness Fire	*Ex post*		Amounts available vary.	Interest rates high.	Available when needed.
Sell family labour	Fire	*Ex post*		Depends on number of economically active people in household.		When migration required the time lag before remittances are received can be long.
High-Stress Coping Strategies						
Savings and asset depletion[29]	Death Sickness Fire	*Ex ante Ex Post*	Many men do not want women to hold assets in their names.	Value of saleable assets often limited.	Savings institutions need to be within 30km of clients home.	• Savings often not accessible when needed. • Assets perceived as quick source of cash but may have to be sold below market price.
Deceased children to relatives	Death	*Ex post*	Long-term family instability.			
INFORMAL GROUP-BASED INSURANCE						
Friends in Need groups[30]	Death Fire Sickness	*Ex ante*	Membership requires regular payments.	• Loans available from groups. • Does not cover MFI debts. • Covers ritual of funeral; rarely meets full cash needs.	Source of support in immediate community so can be readily accessed.	Readily available at time of shock.
Burial Societies	Death	*Ex post*	Reciprocity is key.	• Covers main funeral costs.[31] • Multiple memberships often required to cover full costs. • Loans available from some groups. • Funds limited when group experiences many funerals.	Locally based so can be readily accessed.	Readily available at time of death.

[29] Includes animals, land, housing, means of transport and consumer durables.
[30] *Munno Mukabi*; *Bataka Mwezike*; burial and funeral societies.
[31] Covers food, transport and coffin, and members contribute time to funeral preparation and sitting with body.

Insurance/ risk management mechanisms	**Risk**	***Ex ante or Ex post***	**Terms and Conditions**	**Effectiveness**		
				Coverage	**Accessibility**	**Timeliness**
Financial support from family and friends	Death Sickness Fire	*Ex post*	Fear of providing credit to troubled person.	• Works best when need is small (less that US$10). • Coverage weak when covariant shock.		Often unable to help at time of shock.
Approaching local council leaders and church group for help	Sickness	*Ex post*		Small amounts of money.	Often difficult to access.	
Harambees[32]	Sickness Fire Theft	*Ex post*	Reciprocity is key.	• Best suited for covering large expenses such as hospitalisation. • Costly to organise and fund raiser may not meet target.		• Needs planning. • Inappropriate for immediate emergencies.
FORMAL INSURANCE						
Life Insurance through MFI	Death	*Ex ante*	• Can exclude certain illnesses. • Intended to cover outstanding balance and other expenses.	When fee is percentage of large loan, cost is perceived as excessive.	• Requires complex paperwork, which is difficult for illiterate. • Claim process can be burdensome.	Unavailable if individual or group is between loans.
Health Insurance	Health	*Ex ante*	Exclusions, drugs, testing and in/out-patient coverage, payment systems vary by policy	Depends on quality and supply of existing heath and utilities infrastructure. Comprehensive health care remains unaffordable for many of the poor	Proximity to health service provider is limiting factor. For some programs access defined by use of MFI services.	Transactions costs raised by drug unavailability, waiting time.
Property insurance through MFI	Fire	*Ex ante*	Verification of loss from fire is complex.	No experience in the region.	Requires complex paperwork for illiterate.	Unavailable if between loans.

[32] Kenya only.

4.2 Coverage

Framing any discussion of the potential for life, funeral, health or property insurance for the poor, the initial question is what types of losses or costs could be better covered through microinsurance. In terms of coverage, there seems to be two dimensions to the question: one is what *types* of costs are excluded from existing forms of coverage (which relates primarily to formal and informal systems); and what costs – in terms of *level* -- exceed the amounts available through existing forms of insurance?

This in turns leads us to a next level of analysis focused on the costs of the shock – death, sickness and property loss - and the capacity and ability to pay for the loss. Which of these costs can people cover relatively easily through existing forms of non-formal insurance and what things have to date been covered by the current microinsurance? What things can people NOT afford to cover or cover only at great personal cost or stress level? Lastly, and within the latter category, what lessons can we learn from the clients and their use of existing management tools that could lend themselves to microinsurance (risk pooling) at a cost the poor can afford?

Our findings do not permit us to examine all these questions quantitatively. However, they do provide guidance on the capacity of the poor to cover existing costs.

4.2.1 Coverage by Type of Risk

a. Death

Life insurance, loan insurance and a range of informal group mechanisms such as burial societies and *harambees* indicate a range of options available to microfinance clients to cover this major shock. Common factors limiting the effectiveness for the client is a lack of consistency about the exact amount that will be forthcoming after the shock.

- Not all burial societies are governed by a fixed payout; many depend on the capacity of the members to contribute to the reserve.
- Where the level of payout from a single risk management mechanism often does not meet the full requirements of a funeral, the rituals subsequent to the funeral and the transport costs, the consequence is a practice of 'patching' together many sources of cash.
- Many bundled life insurance with loan insurance policies have a fixed total payout. If the outstanding loan is paid first there can be an ambiguity about the general payout.[33]

The need for 'patching' means that many people find it necessary to belong to more than one welfare association. This behaviour carries with it high transaction costs, composed of not simply multiple financial contributions but also high labour inputs as part of the reciprocal arrangements that underlie these well established informal group-based systems. Wealthier clients can avoid the high transactions by topping up their burial societies contributions with private funds or insurance money.

While informal group-based mechanisms cover all causes of death, formal insurance policies can be more restrictive. To avoid adverse selection, formal insurance policies restrict life insurance coverage to family members other than the policyholder to only 'accidental' death. In this way terminal illnesses can be excluded. In Uganda respondents saw this as some kind of a trick. They expressed the view that if the MFIs really cared about them, this policy would cover all manner of death. Almost all were fully convinced that the MFI's insurance policies were really put in place for the MFI's benefit (Sebageni, 2002). While these reactions may seem unfair to the MFIs as they try hard to provide more for their clients within the range of products the interested insurer is legally able to provide, they also are a red flag about the importance of client education. Expectations need to be shaped to what is being offered and why.

[33] AIG policies mandate a set payout plus the loan is paid. The outstanding loan has no impact on the payout with this product. It certainly may with others (but AIG is clearly the leader in this market in the region).

b. Illness

The lump sum requirements for health will vary with the nature of the risk. In relative terms the cost of outpatient services and drugs can be on the low end while hospitalisation is on the high end. Transport varies depending on the distance.

In all three countries there are free public health services. However, none seem to satisfy the respondents. Respondents voiced interest in finding alternative ways to obtain health services that are both high in quality and affordable. Aside the provision of health insurance there exist few effective *ex ante* or *ex post* mechanisms for the poor to cover all costs associated with illness. As a result, the poor must rely on self-insurance as their primary coping mechanism and it is a weak *ex post* tool.

- A comment made by the Kenyan respondents is applicable to all, "*savings may help pay for component costs but they will never be enough because the volume of savings are too low."*
- The inflexibility of the microfinance products – credit and savings – limits their effectiveness.
- Support from family and friends can provide only small contributions.[34]

c. Property loss from theft and fire

To date there has been little experience in the region with protective coverage of assets lost to fire. Faulu's 'catastrophe' insurance only covered the outstanding balance and even that has limitations on the type of property losses insured. However, providing asset protection faces major hurdles. The problem of verification, the first step in any property claim assessment, poses an important barrier to the design of property insurance. In addition, an affordable claim ceiling may be well below the cost of many fire losses.

4.3. Accessibility

Self-insurance, the only option open to all, is not without its constraints to access. Among the low stress options, the size of the microfinance or ASCA loan, the client's level of contractual savings or collateral, all limit the size of the cash payout. For well-established members, ASCAs can have the advantage of providing short-term emergency loans to cover immediate costs such as transport needs. Moneylenders, a medium stress option, offer ready access and a quick turnaround albeit at a high cost. Savings, a high stress option is location elastic. In Tanzania it was noted that any savings institution located beyond 30 kms of a client's home is never seen as a readily accessible source of cash.

Access to informal group-based mechanisms in this reach is widespread. Welfare institutions of all kinds have the advantage of being locally based. Integral to the community in which they are located, they can be easily accessed in times of crisis. The close kin and ethnic relationships that bind much of the membership translate into group solidarity. While inclusive across wealth levels, they are still largely closed off to the more disadvantaged, both the very poor and many women. Beyond the obvious barriers to entry, which can take the form of location or ethnicity, many burial societies require investments in reciprocal relationships, which many of the disadvantaged can ill afford.

The accessibility of the formal life insurance products reviewed in this study is limited to clients of the MFIs. Moreover, loan and life insurance, a component of both Faulu's and FINCA's insurance schemes, is mandatory, making effective demand difficult to assess. The health care financing system offered by Microcare is not compulsory but is linked to the MFI.[35] For Microcare, this means ease of premium collection and a clearly traceable client group when contingencies arise. However, high drop out rates suggest that effective demand may be less than was anticipated (see discussion below).

Proximity to a health care provider affects access to both private and public formal health insurance. In rural areas, where health services are limited, coping with an emergency is costly at best. Shared local transport to get to a health clinic is one coping option and could be facilitated by emergency loans. For those at the lower income scale, the choices end up being traditional medicine, witchcraft or no treatment.

[34] The HIV/AIDS pandemic also exacerbates the response difficulties many household face. In many ways its immediate and secondary impacts are no longer those associated with an idiosyncratic shock but impacts that accompany a systemic one and which are more difficult to address.

[35] Microcare's partners also include several firms that hire low-income employees and where the employer pays.

The *claims process* for formal life products needs to be improved. Currently the users find them burdensome, requiring complex paperwork, which is difficult for illiterates. In the case of health care this maybe less of a problem. With many of these health care financing programmes, the hospital bills the "insurer" freeing up the patient from being required to find reimbursement.

Many customers lack an understanding of the range of benefits they can receive in return for paying a regular premium. This can lead to under and over valuing the insurance on offer. Clients frequently mentioned that the policy did not always cover necessary diseases. Where the quality of health services provided under the insurance falls short of the clients' standards, the perceived value of insurance is underestimated. The result is the customer may either opt not to take out insurance[36] or exit after the period covered by the premium has elapsed. For Poverty Africa's Health Insurance Scheme in Tanzania, the poor quality of services provided by the designated providers is a key problem and is affecting its retention rates for mainstream microfinance services. In Uganda, many of the health care insurers work with respected hospital so this is less of a problem.

Lack of comprehension of insurance remains an important constraint in attracting customers and in retaining them and has significant implications for risk pooling over the long-term (Brown and Churchill, 1999).

4.4 Timeliness

A common feature of the three major risks is their unpredictability. When ill fortune strikes, the impact of illness, death and property loss must be addressed immediately. Timeliness of the coping mechanism becomes of the essence.

Timely disbursement of payouts, flexible systems of premium payments and their integral role within the community explain the popularity and persistence of the many welfare associations that provide funeral insurance and, in some instances, emergency loans. Furthermore, it is an informal response mechanism to death that is well understood by the target population it is serving. Verification of claims of death are fast and have little chance of cheating since leaders of the informal schemes use the communal system to access information and participate in the funeral activity. Its strength also lies in the trust that underlies its basic tenets of reciprocity. Two of their inherent weaknesses are payment flexibility and fraud. The value of the payouts is a function of the inflow of funds that some participants noted was irregular.

Just as timely payouts are part of an effective and efficient insurance scheme, so too is a timely payment system. Good products are ones that match payments, in this case premiums, to cash flows. In the urban areas, whereas incomes may be low and cash trickles in throughout the year, people are best placed to pay insurance premiums in small instalments on a regular basis. The rural seasonality data from the three country studies indicated periods of high incomes and low expenditures towards the end of the year that might be best suited to collecting lump sums.

> *With the collapse of crop prices, people in rural Mbarara have had real poverty issues. They barely manage to meet the MFI repayments. However, it was also clear that incomes and savings are relatively high during the harvest season and this would be the best time to charge a one-time premium for an insurance product. If a premium were to be charged in instalments, it would make sense in the rural areas to tie the scheduling of the payments to the harvesting season, even if it overlaps across two years* (Sebageni, 2002).

At the same time, the variability of rural cash flow and low levels of earnings often make it difficult to amass even small units of cash and argue for a more spread out payment system, akin to the biweekly or monthly loan repayment cycles associated with microcredit. A participant in Soga Village, Tanzania noted that:

[36] In Nepal, a group of MFI clients argued against the introduction of a health insurance product as long as they lacked a nearby quality health service provider.

> "*The problem of people in this village is people are seasonally poor. During the harvest period, every person is rich, can even afford to buy a bottle of beer, but a few months later he can not even afford to buy a dose of malaria at Tsh.500."* (Millinga, 2002)

The way premiums are collected may even be more important than the amount in determining willingness and ability to pay. Flexibility in payment of premiums and the process of collection can benefit from involving the participation of the subscribers.

> *"The high rate of crime in a neighborhood of Dar es Salaam led residents to look for a community based solution. A decision was made to recruit unemployed youth from the community to work as local security guards. Wages would be paid out of a community fund. Each household is asked to contribute Tsh.100 ($ 12 cents) each day, and houses with kiosks contribute Tsh.200. The money is collected in the evening each day by the young people who provide the security services. By the end of the month each household has paid Tsh.3,000 ($3.53) and households with kiosks in their houses pay a Tsh.6,000 ($7.06). None of the households could have managed to pay a lump sum of Tsh.3000 per month or Tsh.36,000 ($42.35) per annum."*
> (Millinga 2002).

For clients, a well understood weakness of formal life insurance as currently delivered through MFIs is that it is unavailable if the client is between loans, whether by choice because she or he has chosen 'rest', because other group members are in arrears or because of the slowness of the MFI's disbursement system. This problem also highlights once more not only the disadvantages of linking the collection of insurance premiums to loan disbursements but the risks it poses clients. Clients see themselves as the losers when systemic imperfections arise, such as the timing of their premium payments.

> *The Kitintale Women's Group, which is composed of Faulu/Uganda clients, found themselves with a large number of angry members following the death of member in another Faulu group. The family had not received any compensation even though at the time of the death the deceased had been approved for a loan but it had not been disbursed. Since she was technically not in the loan cycle she was not covered by the Faulu Life Insurance Scheme* (Sebageni, 2002).

Such a problem seems counter intuitive for an insurance mechanism whose comparative advantage is as a risk management system. While true, it highlights an issue that warrants much attention: how to de-link loans and insurance. The answer is complex and raises the issue of the cost of alternative collection mechanisms both for the MFI as well as the clients.

Accessing credit from both formal and informal institutions is a widely used self-insurance strategy in the region. However, the record is mixed when time is of the essence. When one is mid-cycle with the MFI or it is not the time for a draw in a ROSCA, these mechanisms are weak. Burial societies that offer lines of credit can be helpful. ASCAs and moneylenders can respond quickly but charge high rates of interest. They are rarely primary sources but fill the gaps where the family find themselves with incomplete coverage. Accessing these sources carry costs in terms of time and forgone productive activities.

4.5 The Clients' Institutional Options: Identifying Attributes

We divided the institutional mechanisms into three: self-insurance, informal group-based institutions and formal group-based insurance. For the poor, the options for coping with shocks are a disconnected and only partially effective mix of alternatives. They do not make up an integrated insurance system for the poor, something that might be a long-term goal, just as microcredit experts see the long-term goal of microfinance as part of an integrated financial system. Yet, the above assessment of the effectiveness of the mechanisms currently in place offers us guidance on desirable and undesirable features to be considered in the design and delivery of any microinsurance products. These are explored below.

4.5.1 Self-insurance

For most of the clients of microfinance institutions, self-insurance is their main risk management tool. Regardless of which mechanism is used, self-insurance strategies deplete assets and divert income and other resources that might otherwise be invested in productive, income generating activities. It may be the option of necessity but it is difficult to argue that it would necessarily be the option of choice if other alternatives were available.

For those lucky enough to have access to MFI resources, the pattern followed is loans first and savings to repay the loans when all else fails. In the absence of emergency loans this works only when the loan cycle is in sync with the crisis. The longer the loan term, the less likely the loan disbursement will coincide with an urgent need. But all too often loans are not enough to cover the large expenses associated with health shocks or property loss and the household resorts to the high stress coping strategy which involves 'patching' asset depletion, the disposition of assets and withdrawal of savings. But even this is a limited risk management tool.

Respondents in all three countries were unanimous that there is never enough money to pay health, death or property related expenses following a shock. How then do people get by? With difficultly. They patch together other resources including the moneylender and support from family and the community. Simply they go further into debt. The price is high and long-term. They get stuck in the poverty trap. While building up the household asset base was identified in these three countries as an effective loss management strategy for the poor, the use of 'effective' in this context must be questioned closely. Asset building is also a slow process and an important path out of poverty (Sebstad and Cohen, 2001). Eroding it as a consequence of a single shock or sequence of illnesses is not unusual and tends to occur quickly and with great urgency. While the cushion that reduces one's vulnerability may lesson the fall, its absence makes the uphill climb longer. Repeated shocks, combined with depleted reserves exacerbate the household's wherewithal to cope.

4.5.2 Informal group-based insurance

Well established and always evolving, the wide range of welfare associations delivering the services associated with death are perceived to serve their members reasonably well. The comparative advantage of burial societies lies in being locally based, widespread, and they can respond in a timely manner. Integral to the social fabric of the community, they bring other advantages. Respondents noted that the fear of being expelled from the society as a penalty and the shame and stigma that it carries. While this can shield these informal group-based systems from over-utilisation or abuse of benefits, this is not a track record without incidences of fraud and misappropriation of funds. They are also vulnerable to the classic insurance problems of moral hazard and free riding.

As costs have risen, members have found that some of the payouts fall short of their needs. For this reason, membership in several welfare associations has become *de rigueur*. Funeral insurance could be another option for providing supplemental funds. Indeed, this is how the funeral insurance payout seems to be used by the clients of CETZAM in Zambia (Personal communication: Leftley, 2002).

However, the use of informal group-based mechanisms to gain access to the cash required for large health expenses or the short and long-term burial costs carries with it a high opportunity cost. This includes not only the actual time needed to amass the resources from multiple sources to cover a single emergency, but also the time costs of reciprocal behaviours implicit in the use of burial societies, Friends in Need Groups and borrowing from family and friends, and the time lost from self-employment. Understanding how these organisations could lower transaction costs without affecting the social norms that define group behaviour and member responsibilities lead to their increased effectiveness. It can also provide insights that will help in designing appropriate microinsurance products.

Burial societies will remain an integral part of poor people's network of risk management systems. Their positive value should be reinforced. In their self-management and very 'local' geography they are akin to self-help groups that provide savings-led services to communities of poor people. Just as with self-help groups, support for these institutions to manage their finances better would seem a possibility. Another option that could be explored by insurers, and might improve their timely delivery of services, is insuring the groups. The member's dues could be equal to the premium.

While burial societies are broader in their outreach and more accessible than formal insurance, they still leave out segments of the population. Very poor and non-poor households often fall out of these systems. The very poor fall out because they cannot keep up with payments, while the non-poor often fall out because of the time required to participate in group social support activities when someone dies. When a household member dies, they depend on self-insurance, often with the likelihood of being locked permanently in debt.

4.5.3 Formal insurance

Where access is limited to microcredit clients, microinsurance reaches only a narrow band of clients. In Tanzania and Uganda, policyholders usually fall above and a little below the poverty line. This target population with its limited understanding of insurance is but a small niche in terms of the potential market for microinsurance. We should also take care in drawing too many conclusions based on this population. We still have a long way to go in assessing the scale of effective demand for health and life insurance. While the demand is obvious, the willingness and ability to pay for what level of quality services is still largely a black box.

There are many gaps that need to be addressed as we move towards delivering appropriate microinsurance products. The informal group-based insurance systems can offer insights that are worth considering. The group-based structures work well at the community level. How can they be adapted to formal microinsurance? Timeliness is key in coping with shocks. Local organisations verify death quickly. What in this experience is transferable? With a wide range of self-insurance and informal group-based options, the niche for microinsurance needs to be assessed. As with microcredit it is not anticipated that these will be entirely displaced by microinsurance. Thus, the question becomes, what are the complementarities among these protection strategies?

Households' dislike of having to maintain multiple burial society memberships suggests a preference for 'one stop shopping'. Moreover, when that one stop is their microfinance institution the clients expressed a level of comfort that helps them make the decision about buying insurance. Aware of the cost of their time, clients welcome ways to lower transaction costs. This feature, together with its coverage of the high costs of hospitalisation and disbursing a single cash payment, which can be spent as needed, are important features to be emulated in the design of microinsurance.

The effective cost of insurance is still not well understood. Clients may not always be aware of this whether they are part of an informal group-based system or the insurance policy is paid for with a loan. In the case of the former, the problem is the high opportunity cost of time inherent in multiple group memberships, in the case of the latter, the solution lies in finding alternative ways to pay the premiums. On first glance, the interest on a long-term savings account to cover the premium might seem more appropriate for the poor, but this too comes with its own problems.

> When premium adjustments are very small, this situation can work. When they are not, it can pose problems. When a plan provides significant coverage as in the case of SEWA's health insurance, the initial fixed deposit will likely have to be very large, probably larger than the poor can afford. Clients note that Microcare doesn't cover enough (excludes chronic care and drugs) and already they charge about US$67 per year per family of four and are still not sustainable. With an interest rate of 10% per annum, which few of the poor can afford, this requires an average savings balance of US$670 throughout the year to cover that premium (which is still not comprehensive enough). A change in the premium of a mere $0.20 per person per month, will require an additional deposit (for a full year) of about US$100. This topping up (again as SEWA learned) is also rather difficult for the poor
>
> (McCord et al., 2001).

These few observations lead us into the implications of the findings for the design and delivery of microinsurance. This is the focus of the next and concluding section.

5. Implications for Microinsurance

Microinsurance has a role to play in providing the poor with enhanced risk management options. The demand is extremely high. As a new entrant into poor people's risk management landscape, private microinsurance will take time to find its niche in the market. The early lessons of the microinsurance experience and developments in microfinance suggest that the poor will continue to use a mix of risk management tools. However, none of the existing strategies will provide 100% of the coverage. Microinsurance can potentially fill these gaps.

5.1 Microinsurance Opportunities

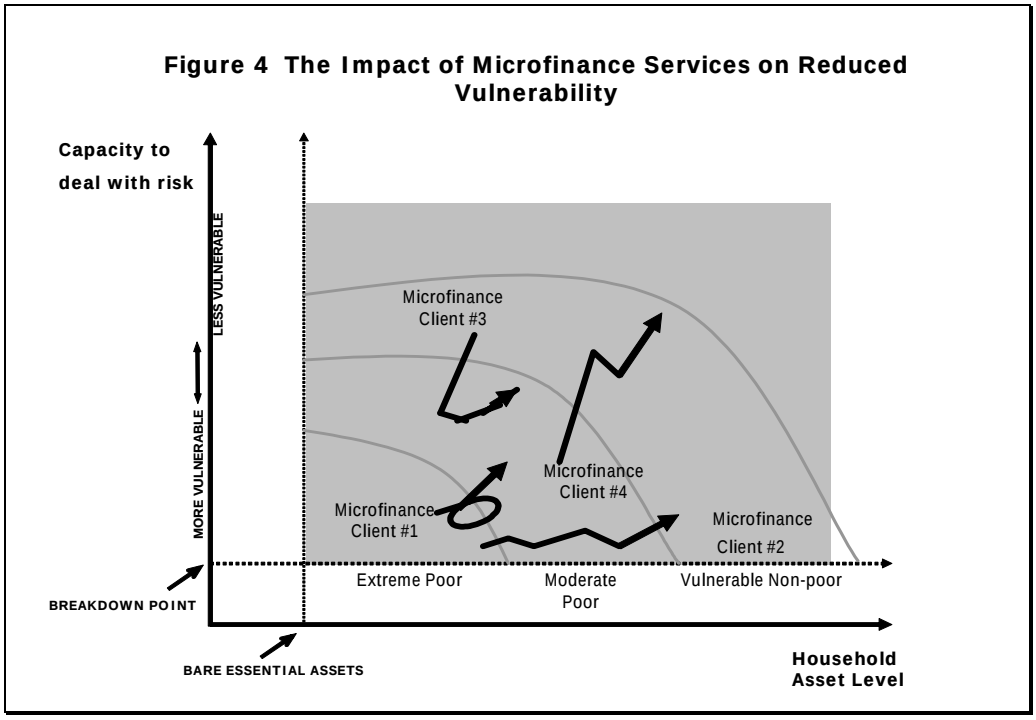
Any microinsurance product targeted at the poor must build on the strength of the existing systems while filling the gaps. The discussion of coverage in the previous section indicated that affordability for poor household's needs to be addressed so that all household members living under one roof can be covered. In large, extended African families, how many the budget can afford to cover will depend on coverage, cost and perceived value for money. This problem is getting worse as family size expands to absorb growing numbers of orphaned children and aging parents. Quality of the services is highly valued. Cash is scarce and the poor are discriminating in wanting value for money. Coverage also needs to include diseases that are commonplace for this population. With increasing costs and pressures resulting from HIV/AIDS, there is a role for additional insurance to 'supplement' existing mechanisms that do not provide full coverage.[37] In the absence of any coverage for property loss, this remains to be explored.

Barriers to entry to both formal and informal systems leave large segments of the population with little access to any formal or informal protective mechanisms. For the large expenses, nearly everyone relies completely if not in part on their capacity to self-insure. This is often forcing people to deplete their asset bases and lock themselves into long-term debt. Many risks are unpredictable, making the timeliness of loss management mechanisms key. Timeliness is another gap that needs to be figured into product design.

Yet, without access to insurance, many poor people seem to be trapped in a vicious cycle where shocks and debt prevent them from moving from a reactive to a proactive lifestyle, in which one can take advantage of opportunities and build wealth (see figure 4). Microfinance services are an important instrument in helping the poor to build assets. However, accessing loans is also risky. The inability to repay, like the shocks and financial stress discussed in this paper, can put pressure on these assets and erode hard won gains. Without the ability to protect their assets, reducing vulnerability through asset acquisition can be temporary for many poor people.

[37] Additional supplementary insurance can help to avoid not out-pricing those who do not have chronic diseases (for example). These can be offered as riders for those who want such coverage. However, because this is likely to be an adversely selected group (only those who need chronic care are likely to purchase it) the price is likely to be more expensive than simply buying the drugs (since the claim cost is only one portion (and often less than 50%) of the total premium.

Figure 4: The Impact of Microfinance Services on Reduced Vulnerability



Source: Sebstad and Cohen, 2001

This figure begins by showing the relationship between household assets and vulnerability. The figure suggests that households generally need a minimum level of assets (bare essentials) and a minimum ability to cope with risk (above the breakdown point) to survive. Microfinance clients' households typically fall into one of three groups related to their level of assets and ability to deal with risks, which corresponds roughly to three poverty levels and a continuum of household economic goals. These groups range from the extreme poor with a concern for survival at the lower end, to the moderate poor with an emphasis on economic security at the middle, to the vulnerable non-poor with a focus on longer-term economic security and a higher standard of living at the higher end. Most of the respondents fall into the moderate poor and vulnerable non-poor category. Each line represents the 'impact path' of a microfinance client as they seek to built their asset bases while also responding to on –going stress events and crisis which place demands on these assets.

Client number one is from an extreme poor household with a low level, but well-balanced mix, of assets. She uses her first loan to build up her asset base but suffers a loss and falls back. She uses a second loan to rebuild and increase her assets and moves forward into the moderate poverty group. Through this process she gradually increases her capacity to deal with risks, thereby reducing her vulnerability.

Client number two is from a moderate poor household with a slightly higher level of assets, but she is vulnerable. She uses a series of loans for low-risk, 'protectional' investments, and over time, gradually and cautiously increases her base of assets and slightly reduces her vulnerability.

Client number three is from a vulnerable non-poor household with a relatively modest level of assets, but she has a good capacity to deal with risk (e.g., she may have good business skills or rich relatives who will support her). She invests her loan in a high-risk activity, suffers a fairly dramatic loss, but is able to recover relatively quickly with help from her relatives and a second loan. The new loan helps her get back on her feet, increase her level of assets and shift her composition of assets to a less-risky mix.

Client number four is a success story. She is from a moderate poor household with a modest level, but balanced mix, of assets. She uses her first loan for a high-risk, high-return activity and is successful. She increases her base of assets, improves the mix of assets, and improves her capacity to deal with risk. She takes a second loan and suffers an initial loss. Because she has a good mix of assets, however, she is able

to cope with the loss and recover. Over time, she continues successfully on an upward path, increasing her level of assets, maintaining a balanced mix of assets, and expanding her capacity to deal with risks, thus reducing her vulnerability (Sebstad and Cohen, 2001).[38]

The figure also argues the case for microinsurance. Through time, households move back and forth from group to group. The impact of shocks is to decrease assets resulting in a change in the mix of assets and become more vulnerable. If people are to improve their lives over the long run, this is made easier if the liquidation of assets can be avoided. Protecting those assets is key. A variety of insurance mechanisms is one possible solution.

5.2 Recommendations for Product Design

The demand for microinsurance is high. Poor households are aware of their vulnerability to risks. Responding to this need with appropriate products and services is an enormous challenge. They include:

- Separate out the different risk elements of health or life/funeral/loan insurance.
- Provide differentiated products able to meet different needs.
- Time premium payments to match income flows.
- Match household financial flows to payment cycles.
- Assess the range of formal and informal insurance options until we gain a better understanding of effective demand.
- De-link microcredit and microinsurance.
- Focus on protective mechanisms for property loss rather than ex post insurance.
- Learn from the advantages and disadvantages of reciprocity and social obligation in informal group-based mechanisms.[39]

Increased product flexibility has become the new mantra of microcredit. The same message seems applicable to microinsurance. More than one option for when and how premiums are paid may be necessary if demand for microinsurance products is to be sustained. Caution must be heeded in considering linkages with long-term savings in which the premium is equal to the interest earned on savings. Alternatively and perhaps a better option, insurance accounts could be linked to savings accounts with automatic withdrawals when the premiums come due. This can also be made very flexible by allowing the client to choose when they want the payments to be made. For most of the poor, small amounts paid over time may not be as taxing as a large premium due all at once. Loans to cover the premium, a system currently used in FINCA and Faulu, appear the least desirable alternative for collecting premiums.

Frequency of payments and variability in the size of premiums are another aspect of flexibility. The design of microinsurance products should allow for continuous coverage. In rural areas, it might be more appropriate to tie payments to the harvest season when people have a little more money.

The risk-pooling concept is not clear to many poor households or subscribers of microinsurance policies. They do not differentiate between prepayment and insurance. Fundamentally, premiums for the poor are perceived as payment for services one is entitled to access within a year rather than a long-term payment schedule to permit the access to services when needed. Clarification of this and other insurance concepts is fundamental to the success of any microinsurance initiative.

[38] Definitions of the terms used in the Figure 4 are offered in Annex A.
[39] These traditions provided the basis for solidarity group lending.

> Some FINCA-Uganda non-subscribers responded that they had not joined Microcare because they 'had heard that even if a cycle was completed without falling sick, one was not given a refund of the money and its was not carried forward"
>
> (Sebageni, 2002).
>
> One of the ladies in *Tusaidiane sisi kwa sisi* in Nairobi's South B had insured her business against fire, paid premiums of Sh.600 per month for two years and then "All that money! I stopped." Many people are not sure they are getting value for money if "the risk does not happen"
>
> (Millinga, 2002).

Death, sickness, and protection against theft and fire are probably the best candidates for insurance. This could be a win-win situation for both the client and the insurer. However, in arguing for these types of insurance products we fully recognise that many of the risks indicated at the beginning of the paper will remain unprotected and their occurrence will continue to affect the vulnerability of the poor. We also note that many of the second wave risks associated with the secondary impacts of these shocks will not be fully addressed. At best, the financial service sector can be expected to offer loans as to facilitate these losses. Emergency loans, small, short-term and punctual, could help fill this void.

All microinsurance should recognise the specific needs of women, including making available life insurance policies for their husbands or ensuring that as the beneficiaries of these policies, they receive the payout, possibly in the form of direct deposits into their own savings accounts. Many of the stresses experienced by women as a result of a husband's death are not always addressed by any of the insurance mechanisms discussed. The potential exists to meet these needs with other financial and non-financial services, e.g. legal support for women, educational loans, financial education, business development services, or savings accounts. These might be separate products offered by the MFI.

5.2.1 Life insurance

To cope with death the poor will benefit if the major costs can be covered through three types of insurance or other financial products:

- Life insurance, a lump sum to cover the needs of the household as they see fit following this shock.
- Loan insurance, a lump sum to cover the balance on the deceased's outstanding loan and relieve the bereaved on any financial contracts with the MFI.
- Funeral insurance to cover the costs associated with the burial rites including the death certificate, the coffin, the tent and food for mourners, the transport of the body from home to church to burial ground, and preparing body for burial.

As noted, the study findings suggest that loan insurance and life insurance should be de-linked for microfinance clients. Life insurance should not be a mandatory requirement of taking a loan and should be available to the poor even when they choose not to take a loan. Furthermore, loan, life and funeral insurance respond to different risks and serve different objectives. Loan insurance exists primarily to protect the MFI's portfolio and to reduce the liabilities of surviving family members. A lump sum can help the household of the deceased to keep going and recover while funeral insurance meets the demands of the immediate burial rites. By default, not by design, they are currently offered together. Splitting the products may be more complex for the insurer, but it would offer customers a choice that may correspond better to effective demand.

Funeral insurance is well understood among the population and provides the most efficient services by timely payment of payouts and flexible systems of payments of premiums. Verification of claims are fast and there is little chance of cheating since leaders of the informal schemes use the communal system to access information and participate in the funeral activity if burial where viable.

Thus it is important that any proposals in support of formal funeral insurance should be seen within the context of these traditional practices. Indeed, the success of CETZAM's funeral insurance indicates that

is a market for a product that can complement traditional practices. No doubt the increased frequency of death and cumulating cost of these events in a country in which the adult HIV/AIDS rate is 25 percent or above has created a relatively urgent need for an alternative risk management mechanism. Client satisfaction with the product is high. The fungible payout is used for the funeral and for capital items (Leftley, 2002).

The design of any funeral insurance product should examine closely the existing informal mechanisms. If the lessons of microcredit are to be heeded the group dynamics of the welfare associations might provide a basis to collecting premiums and making claims that can lower transactions costs for the supplier and the consumer. Insuring the group rather than the individual might be easier and cheaper.

The death of a husband should be explored as a separate insurance policy, or a rider might be included in a general life insurance policy for male spouses to ensure that their wives' or their jointly owned assets are protected. Not only is a fixed payout amount advantageous for the surviving widow, but it also ensures that payout disputes might be less likely to arise**.**

5.2.2 Microinsurance for managing health risks

Framing any discussion of health insurance for the poor is the high level of unpredictability of health shocks together with the high cost in relation to most poor people's household cash flow. In the absence of insurance the respondents made the point that that there is never enough money to pay health expenses.

With many people exposed to ill health and few insured, the potential for microinsurance is clear. As noted in Tanzania, the market for health insurance is both obvious and largely untouched. The re-introduction of user fees for health services and the on going economic and social reforms in the country have increased interest in insurance. Less obvious is what such a product would look like. We identified six component risks, each calling for a different strategy. They include:

- Outpatient services which cover visits to a range of health service providers.
- Hospitalisation.
- Long-term illness and related care as a result of HIV/AIDS, TB and other chronic illnesses sickness relating to old age.
- Transport to cover the costs incurred by the sick and the person who accompanies them to a health service provider.
- Drugs.
- Preventive measures such as mosquito nets.

What can be covered at what price remains an enormous stumbling block. However, something will have to change if people are going to be able to escape poverty and not be weighed down by the dilemma of no treatment and no more debt or get treatment and take on debt. Clearly health insurance cannot meet all the costs. Teasing out those costs that can be supported other ways seems an important first step in assessing the options.

Other possibilities that might be considered include linking informal insurance associations with formal insurance providers and with other services. The Tanzanian study found that none of the burial associations provides health insurance. Yet, the informal associations exist in precisely those areas such as Dar es Salaam where insurance services are already offered. Most of these informal insurance associations operate with rules and regulations that fit the traditions and the local conditions. Formal insurance providers could explore introducing health insurance among the members of the informal associations. Informal associations could serve as access points for insurance company agent, facilitating the provision of information on policyholders, collecting premiums, verifying payouts etc. They are less likely to be able to act as agents of insurance companies.

5.2.3 Is Microinsurance for asset protection possible?

At one level, protection of assets would seem an obvious market for microinsurance. The objects to be covered are primarily productive assets, equipment or buildings. At the same time, the problems of moral hazard and fraud suggest that that the risks to the insurer are too great for property insurance to be

viable. A recurrent theme heard from many respondents is that the causes of these shocks are questionable, making verification for an insurance claim nearly impossible. Participants in Nairobi explained that while many fires do occur accidentally, many are intentional for reasons such as land grabbing, politics, jealousy by rich shop owners who see people preferring to buy from stalls instead of shops, and forceful eviction by land lords (Mbaisi and Ahmed, 2002). The same doubts were echoed in Uganda.

Those interviewed in all three countries expressed the view that insurance practices as they observe them leave them with little confidence. In Uganda it was noted that a syndicate exists between thieves and law enforcement agencies and local defence units. Mention was made of collusion with insurance agents Fraud is widespread in all three countries, making the risk of moral hazard high.

Beyond the challenges of proof of a robbery or accidental fire are the problems inherent in the valuing of the loss and the verification of the absence of participation by the victim. In Uganda the police are corrupt and impose heavy invisible fines on the victim. For the poor, the absence of money can limit the effectiveness of an investigation, or the return of stolen property.

The negatives aside, the demand is high and the potential should be explored. The point of entry for property insurance should be housing or building insurance, with the premium as a percentage of the assessed value of the house. Eligibility requirements would include the possession of a title and the housing be made of concrete, brick or other durable materials.[40] In the absence of insurance, some precautionary financial services could be considered. Loan products, such as credit for electrical connections or for the installation of burglar proofing for windows offer potential.

Given these challenges, for these type of property loss risks, perhaps the emphasis should be on precautionary strategies and campaigns to protect assets ahead of time -- locks, keys, burglar bars, smoke alarms, security measures, anti-crime campaigns (theft and arson), fire extinguishers, and fire prevention education might have a greater pay off. It also might be that very specific types of insurance could be useful – for example, insurance like the livestock insurance in Nepal, whereby the asset purchased through a loan is protected by insurance while the loan is being paid off. It protects the owner from the liability of the loan if the asset is lost (this type of insurance may be provided for business assets, housing, livestock, etc.).

5.2.3 Emergency loans

Transport costs were separated out from other death and health expenses because they represent a key expense that must be incurred by those who, lacking ready access to a health service provider, especially in cases of emergency, must travel distances to participate in a funeral, or are responsible for returning a body to the ancestral home. To date, the most appropriate financial service for meeting this need is an emergency loan, a small amount of money that can be disbursed quickly and repaid in a relatively short amount of time. In northern Mali, CIDR introduced a health loan to cover the transport costs of rural clients to health centres. It quickly became among one of the most popular loan products (Cohen and Sebstad, 2000). The same observation has been made by other MFIs. In Senegal, CCF offer a quick turn around one month loan, at 5% interest to clients in good standing.

The provision of transport services for health emergencies is a hugely important issue in Africa, especially in relation to maternity related emergencies. Lack of emergency transport services is directly linked to high maternal mortality rates, especially in remote rural areas. Emergency transport is something that would appear to lend itself to risk pooling in rural areas, not just money, but also ambulances. Indeed, in some areas in West Africa the community runs a stretcher service. Alternatively, emergency transport should be considered to be part of the state's social protection schemes (as in many developed countries).

5.2.5 Savings

Many organisations require their clients to save on a contractual basis for the loan. Depending on the MFIs policy, these reserves often cannot be accessed readily. Some clients prefer this and see it as a risk

[40] See Churchill and Brown (1999).

management strategy or a means to earmark cash for a major investment. Since the level of savings determines loan size for those wanting a larger loan there is no incentive to withdraw the cash. However, there is no reason why the savings could not be used as basis for microinsurance premiums. Another recommendation is that a policy be introduced that ensures that these savings go to designated beneficiaries of the deceased and in this way could be used for managing secondary shocks.

5.3 Role for non-financial services

The recommendations to this point have focused on microinsurance and touched on the role of other financial services to support the poor in better managing risk. In the last section below, attention is given to a range of non-financial services that will increase the success of any microinsurance initiative.

5.3.1 Client education

One of the recurring stumbling blocks in introducing microinsurance in East Africa is the poor's limited comprehension of the concepts of insurance. People's experience with Burial Societies and welfare associations means that most are familiar with sharing risk for very familiar shocks such as death. Because the meaning of formal insurance as a concept has not been well explained to the customers, they lack clarity about risk pooling as it applies to formal insurance, and so insurance is not well used. An important part of client education is to link the experience that people have with informal group-based systems to similar concepts with regards to formal insurance. This process can also be used to explore with formal insurance companies how they can better market their product to low-income markets.

> Evidence from Microcare and Poverty Africa's health insurance programmes suggests that once subscribers have paid their premiums, they feel they must use the service. They treat it as a prepayment scheme. Poverty Africa's subscribers go for medical check ups just to make sure that they have exhausted the amount they contributed. Microcare's customers have been known to pay their premiums, 'get fixed' and then leave the programme.
>
> (Sebageni, 2002 and Millinga, 2002)

Insurance and savings are often confused. Some clients feel that if one pays a premium one should be able to either withdraw this cash it when needed. With continuous pressure on scarce cash, payment to a microinsurer for an unpredictable 'rainy day' is not always valued. While they do this with informal group mechanisms, there needs to be similar understanding of how this concept can be adapted to formal microinsurance.

Another common thread across the three countries was the limited understanding of the coverage of their premiums. Clients who pay premiums with their loan repayment are often unaware of the charges. In Uganda, the question of whether people understood what they are paying for under the FINCA and Faulu insurance programmes was a resounding "no". People did not have a full understanding about what was covered – *what is an accident* – and how to make a claim. Clarity of what is a valid basis for claim as well as how to make a claim need to be presented in readily understood language.

If microinsurance has any chance at being a viable financial product, insurance education will have to be given priority. Client education about insurance should help to raise the acceptance and therefore success of a microinsurance programme by the poor. It can also positively affect policy retention rates. Insurance education will also require those selling the products as well as those buying the products to understand their cost and value to the consumer, and be clear about the benefits and costs of voluntary versus mandatory insurance provision. Clients need straightforward written materials describing the insurance products, their cost, their use and the claim process. Buying a premium primarily reduces risk for the client, but it also carries some risk. To reduce these added risks, financial education could be provided to help beneficiaries assess: what insurance is and is not; potential benefits; what to look for in a policy; possible pitfalls. The basic concepts will have to be simplified, disclosed to and discussed with the clients.

Insurance education should also be extended to the insurance officer with responsibility for selling the product and managing the client/insurance interface on claims. In Uganda, the research found that the

people who were charged with marketing the products did not understand them well themselves. Even though the product is mandatory, credit/insurance officers in both Faulu and FINCA were open in admitting that they were still grappling with grey areas and many clients complained that has asked many unanswered questions. For the insurance officers, training is needed to ensure that they are well informed about the products, well trained and well motivated.

5.3.2 Legal services

Lack of control of assets, a constraint facing all women in these three countries, remains a major impediment to their capacity to mitigate risks of all types. While ensuring title to assets is a first step without the legal infrastructure to support the implementation of such rights, women continued to be denied what is owed to them. Support to protect property rights for women upon death of their husbands is a priority. This would include legal rights awareness campaigns; legal rights education; legal reform (where necessary); and individual/group legal counselling and support. These could well accompany a programme of client insurance education.

5.3.3 Role of the state in social protection

Less discussed in the paper is the role of the state as a provider of public goods, health services and social protection. In the foreseeable future, there will be large numbers who will be un-served by either private sector formal insurance or informal insurance and have limited capacity to self-insure. Free hospitalisation, a public good and form of social protection provided by the state, is currently their only option.

In the future, the public sector will need to be considered when enticing the existing private providers down market. National health policies should be understood before introducing private microinsurance. The equity of user fee policies should be assessed; as should the affordability and accessibility of the services for the poor. An evaluation of the gaps in the market and the complementarities will suggest where the greatest opportunities exist for microinsurance to extend service provision and quality care to those currently un-served.

5.3.4 Planning codes and enforcement

Faced with formidable barriers to asset insurance, people depend primarily on preventive measures to reduce the risk of fire and theft. Many can be undertaken by individuals or communities with common interests. But other preventative measures, such as ensuring safe electrical connections or construction that is up to standards, must engage the public authorities.

5.3.5 Linked services

The experience of tied insurance services suggests that formal insurance providers have to look more carefully at this issue. However, the experience of Tanzania has brought to the fore a different type of linkage, across institutional mechanisms that warrant consideration.

Burial associations provide funeral insurance to their members. While some welfare associations provide loans to their members, none provides health insurance. The informal associations are very widely used, even in areas where insurance services are extensive like Dar es Salaam. The informal insurance associations are grassroots groups that operate with rules and regulations that suit traditions and conditions. It is suggested that formal insurance providers explore working with informal associations to introduce health insurance. The role of the informal associations could be that of a service conduit to an insurer's agent to obtain and provide information, collect premiums, verify payouts etc. The physical presence of insurance providers close to the clients would provide poor people with a convenient way to cover against risks (Millinga, 2002).

5.4 Final Conclusions

There is a clear demand for providing the poor with financial services to help them better manage risk both *ex ante* and *ex post.* Microinsurance has a role to play, complementing and improving on the options currently available to this clientele. Delivering the appropriate products is a tough challenge but one well worth addressing. Without more effective precautionary and loss management strategies in place, the

poor remain locked in a vicious circle. In the face of a shock, asset build up is interrupted and quickly gives way to asset depletion and increased debt.

The lessons of microcredit are ones that the incipient microinsurance industry should heed. Self-insurance is the main risk management strategy available to the poor. While often timely and accessible, no single informal source of funds can provide most people with adequate coverage except when the expenses are small. Patching funds together to accumulate larger lump sums carries high transaction costs. Informal group-based mechanisms, especially in the form of the wide range of welfare associations remind us that solidarity can be integral to the delivery of many of the financial services used by the poor. When it comes to meeting health risks, most people must rely on a mix of self- and informal insurance tools and state services. They are mixed together to provide the lump sum of cash and services to get the best care they can afford.

The conclusions of the paper point to the importance of the design and delivery of this new product based on a market analysis of the potential customers' preferences as well as their existing insurance landscapes. This demand-led approach differs markedly from microinsurance product development to date. Most microinsurance products currently on offer appear to be primarily supply-led, designed as downsized products of commercial companies.

Context is also key to the effectiveness of any microinsurance products. At the client level we identified the lack of understanding of insurance. Client education is a prerequisite for any adoption of such innovative financial products. The client's financial landscape has already been mentioned. On the shock side, we need to take account of not just the initial shocks but the capacity of the client to cope with the secondary shock effects: the payment of school fees to keep children in school, the shortfall in cash to pay for food when the principle breadwinner is sick or has died.

At the institutional level, the context encompasses a range of institutions responsible for the delivery of insurance services. In some instances, it is the insurer itself. In some of the formal microinsurance examples addressed by the study, MFIs acted as agents for the insurer. These partnerships can be very advantageous to the insurer, the MFI and the client: the insurer gains access to an appropriate market; the MFI expands the range of financial services it can offer and gains a new income source and the client's demands can be addressed appropriately. However, such partnerships are not without risks to the institutions and cost to the clients, some of which are inherent in insurance. If clients borrow from the MFI to pay the premium, the effective cost of the insurance increases, a real cost that is often hidden from the borrower because it is a small increment in their loan repayment. When claim problems arise, the reputation of the MFIs can be jeopardised. In competitive markets, where multiple MFIs offer the same product, client retention is always being tested. A product such as insurance may have been introduced in part to create loyalty, but mistakes can also do the opposite.

Much of the discussion in this paper was about the private provision of loss management services for life, health and property risks by formal and informal institutions. The findings showed that meeting the shock of death with informal insurance met a clear demand relatively effectively. By contrast, coverage of property loss from fire and theft were primarily the responsibility of the individual using a wide range of self-insurance mechanisms intended to help cope with the loss and get back on one's feet. In managing health crises, poor households use a wide range of strategies, each contributing incrementally to the expenses that need be incurred as a result of the shock.

Affordability for extensive health care remains a challenge but should not discourage private insurers from entering the market. People want comprehensive care. This is the demand. Microinsurance programmes need to try to satisfy this demand within the bounds of sustainability. The pool will be limited in size in the sense that some cannot or will not join. The first step is to design and deliver a product that works for a significant segment of the market. The next step is to adapt the model for the excluded. This parallels what has happened in microfinance.

Microinsurance has endeavoured to fill the void in a system that is bereft of the public provision of insurance services. In the area of health this abyss is enormous. The lack of public services does not mean the role of the state should be ignored. Rather, health insurers need to engage the state. A central

question might be, how extensive and all-inclusive should private microinsurance be or could private microinsurers provide a limited selection of services to a larger segment of the population and in a role that complements the responsibilities of the state?

The state also has another role. It should be the guardian and enforcer of a legal framework that supports the rights of the disadvantaged, especially women. Women faced with severe shocks often find themselves caught in trap. When they suffer a shock like the loss of a husband, they find themselves dispossessed of assets they have rightfully earned or to which they are entitled. This occurs even when they are the beneficiary of an insurance policy. Weak enforcement of inheritance rights offers them no means of appeal. Educational support to raise awareness of these issues among both the victims and the service providers is but a first step towards equity in risk mitigation.

Microinsurance is just beginning. There is a clear need for risk coping mechanisms that can improve on existing forms of informal group based insurance and self insurance. The existing formal insurance providers of health and life insurance are experimenters in new markets. The sister paper to this by McCord and Osinde (2003) explores their achievements to date in the area of health insurance in Kenya, Uganda and Tanzania more fully[41]. This paper argues that the development of this area of microfinance should take to heart the lessons learned in the microcredit field. As with credit poor people use a wide range of indigenous approaches to protecting against risk and ahead of time and coping with shocks after they have occurred. These mechanisms are instructive for not only what they tell us about the demand for risk mitigation and management instruments but also what poor people can afford and the effectiveness of what is on offer. Without question responding to these needs with appropriate microinsurance products and services is a challenge. Another microcredit lesson to be taken to heart is that this will take time. However, we can not avoid moving forward on this issue. The provision of savings and credit services for poor people has enabled them to gain access to resources which can be used to increase income and build assets. Insurance is necessary to help poor people better manage risk and avoid falling back down the poverty ladder when faced with shocks. It is a key to the process of poverty alleviation.

[41] Michael J. McCord and Sylvia Osinde. 2003. "The Supply of Health Insurance in East Africa". MicroSave- Africa.

Annex A: Definitions used in Figure 4

Household asset level: A household's net assets, including all types of assets—physical, financial, human, and social.

Bare essential assets: A minimum level of assets a household needs to survive.

Household ability to cope with risk: The working definition of vulnerability in the WDR paper. The greater the household's ability to cope with risk, the lower its level of vulnerability. In general, a positive, but not necessarily direct, relationship exists between a household's asset level and its ability to deal with risk. The fact that this relationship is not direct may be related to the 'mix' of household assets.

Breakdown point: The point at which the household's capacity to cope with risk is so low that its very survival is threatened.

Asset mix with least risk: The shaded triangle suggests there is a 'mix' of physical, financial, human, and social assets that presents the least risk for households at different poverty levels. For example, a mix of human and social assets may be more important for reducing the vulnerability of extreme poor households, while physical and financial assets may increase in importance for moderate and vulnerable non-poor households. Those households seeking to reduce their vulnerability (capacity to deal with risk) ideally strive to locate in the shaded area.

The asset level of a household corresponds roughly to its poverty level. Extremely poor households have lower levels of assets. Moderate poor and vulnerable non-poor households progressively have higher levels of assets.

Extreme poor households are concerned primarily with survival and viability. Because they are close to the 'breakdown point' and to the 'bare essential assets' level, they focus largely on coping with and protecting against risks. Their capacity to bear risk is low, so they are likely to (1) be risk averse in their economic strategies and (2) use financial services to build precautionary savings; invest in low-risk, low-return investments; and build social networks.

Moderate poor households have slightly more assets but are not that far from the 'breakdown point' or 'bare essential assets' level. Their primary concerns are (1) protecting the little they have, (2) cautiously increasing and maintaining their economic security, and (3) protecting against risk in their economic strategies. They are likely to use financial services to build human assets (invest in education), build physical assets (invest in housing), and smooth income by diversifying into relatively low-risk activities and building liquid savings.

Vulnerable non-poor households have been able to build up a larger and more solid base of assets, but they still face many risks that make them vulnerable to loss and falling into poverty. Their higher level of assets enables them to take more risk in their economic strategies, but this, in turn, increases their vulnerability. They are likely to use financial services to invest in less-liquid assets, increase productive assets, and seek out and take advantage of higher-risk investment opportunities.

Household economic goals can change over time as the life cycle of the household changes, or as the household increases or decreases its asset base. Within each group, some households are more vulnerable, some are less vulnerable; some have more assets and some have fewer assets; and the mix of assets varies. But in general, as households move from the extreme poor group to the moderate poor group to the vulnerable non-poor group, they increase their asset levels, increase their ability to deal with risk, and become less vulnerable.

The arched shape of each poverty group is not intended to suggest any mechanical trade-off between the declining poverty level and vulnerability. Rather the figure is intended to be indicative of the changing relationship between assets and vulnerability. Whatever the actual trade-offs, households in all three groups, to some extent, are vulnerable to risk.

References:

Barnes, Carolyn. 2001. *Microfinance Program Clients and Impact: An Assessment of Zambuko Trust, Zimbabwe.* Washington, DC: AIMS study.

Brown, Warren and Craig Churchill. 1999. "Micro-Insurance: Providing Insurance to Low-Income Households Part I." Working draft. Microenterprise Best Practices Project. Calmeadow and Development Alternatives, Inc. Bethesda, MD.

Chen, Martha A. and Donald Snodgrass. 2001. *Managing Resources, Activities, and Risk in Urban India: The Impact of SEWA Bank.* Washington, DC: AIMS study.

Chua, Ronald T., Simon Peter Gregorio, Marcia Feria Miranda, Marie Apostol, and Daniel B. Del Rosario. 1999. "Risk, Vulnerability, Assets and the Role of Financial Services in Reducing Vulnerability: A Study of the Women Clients of CARD Bay Laguna, Philippines". Draft report submitted to CGAP, Washington, DC

Dunn, Elizabeth, Nicholas Kalaitzandonakes, and Corinne Vadiviaz. 1996. *Risk and the Impacts of Microenterprise Services.* Washington, DC: AIMS study.

Dunn, Elizabeth and J. Gordon Arbuckle. 2001. *The Impacts of Microcredit: A Case Study from Peru.* Washington, DC: AIMS study.

Mbaisi, Jane and Shahnaz Ahmed. (forthcoming). *Vulnerability, Risks, Crises and Coping Mechanisms among K-Rep Clients in Nairobi Slums*. Nairobi, Kenya: K-Rep Development Agency.

McCord, Michael J., 2001. "MFIs and Risk Management Tools for the Poor: An Introduction to MicroInsurance." A powerpoint presentation to the Fifth Annual Conference of MicroLending Institutions in C&EE and the NIS, 16-18 May 2002, Budapest, Hungary. Adapted from Charles van Oppen in "The role of insurance in disaster reduction. For United Nations – International Strategy for Disaster Reduction." May 2001.

McCord, Michael, 2003. "A Tool Kit for Planning, Conducting and Monitoring Pilot Tests for MFI Savings Products". October. Nairobi: *MicroSave-Africa*.

Michael J. McCord, Jennifer Isern, and Syed M. Hashemi. 2002. "Microinsurance: a case study of an example of the full service model of microinsurance provision - Self-Employed Women's Association (SEWA)." Nairobi, Kenya: *MicroSave-Africa*.

Millinga, Altemius. 2002. *Assessing the Demand for Microinsurance in Tanzania.* Nairobi, Kenya: *MicroSave-Africa.*

Montgomery, Richard. 1996. "Disciplining or Protecting the Poor? Avoiding the Social Costs of Peer Pressure in Solidarity Group Micro-Credit Schemes." *Sustainable Banking with the Poor, Occasional Papers* No. 11. Washington, DC: The World Bank.

Morduch, Jonathan. 1998a. "Does Microfinance Really Help the Poor? New Evidence from Flagship Programs in Bangladesh" (June). Cambridge, Mass.: Department of Economics and Harvard Institute for International Development (HIID), Harvard University; Stanford, Calif.: Hoover Institution, Stanford University. (Draft.)

Morduch, Jonathan. 1998b. "The Grameen Bank: A Financial Reckoning". Cambridge, Mass.: Department of Economics and HIID, Harvard University; Stanford, Calif.: Hoover Institution, Stanford University. (Draft.)

Morduch, Jonathan. 1998c. "Between the Market and the State: Can Informal Insurance Patch the Safety Net?", Harvard Institute for International Development, *Development Discussion Paper:* No. 621. Cambridge, Mass.: HIID, Harvard University.

Mosley, Paul. 1999. "Microfinance and Poverty: Bolivia Case Study" (May). Background paper for the World Development Report 2000/01.

Nelson, Candace, Barbara MkNelly, Elaine Edgcomb, Gary Gaile, Carter Garber, Nancy Horn and Karen Lippold. 2000. "Learning from clients: Assessment Tools for Microfinance Practitioners – Draft Manual. January. AIMS Project and SEEP. Washington, D. C.: Management Systems International.

Roth, James. 1999. Informal microinsurance schemes - the case of funeral insurance in South Africa. Geneva, Switzerland, ILO Social Finance Unit.

Rutherford, Stuart. 2000. *The Poor and their Money.* New Delhi: Oxford University Press.

Sebageni, Grace. 2003. *Assessing the Demand for Microinsurance in Uganda.* Nairobi, Kenya: *MicroSave-Africa.*

Sebstad, Jennefer and Monique Cohen. 2001. *Microfinance, Risk Management and Poverty*. Washington, D.C: Consultative Group to Assist the Poorest.

Simba, Francis. 2002. *Demand Side of Microinsurance Study – Kenya.* Nairobi, Kenya: K-Rep Advisory Services Limited.

Simkhada, Navraj, Sushila Guatam, Mira Mishra, Ishworki Acharya, and Namrata Sharma. 2000. "Research on Risk and Vulnerability of Rural Women in Nepal", Kathmandu: Center for Microfinance.

Wright, Graham. 2002. World Council of Credit Unions, Inc. Best Practices in Savings Mobilization Conference, Washington, DC, November 5-6, 2002.

Wright, Graham A.N. and Leonard Mutesasira. 2001. "The Relative Risks to Poor People's Savings" JSED Vol. 12 No. 3.

Wright, Graham A. N., Deborah Kasente, Germina Ssemogerere, and Leonard Mutesasira. 1999. "Vulnerability, Risks, Assets and Empowerment—The Impact of Microfinance on Poverty Alleviation". Final report. Kampala, Uganda: *MicroSave-Africa*.

Zaman, Hassan. 1999. "Assessing the Impact of Micro-credit on Poverty and Vulnerability in Bangladesh", Policy Research Working Paper No. 2145, The World Bank. Washington, DC: The World Bank.