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Necessity as the Mother of Invention

How Poor People Protect Themselves Against Risk

Graham A.N. Wright

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Executive Summary

What Are The Risks Facing The Poor ?
Rahman and Hossain (1995) offer a *framework for analysing risk*, which looks at the extent to which a specific disruption can be anticipated and hence planned for. These risks interact to form a complex risk environment, and give rise to a complex range of precautionary strategies (the subject of this paper) and also response/loss management strategies.
Lifecycle Risks are related to such events as marriage and birth, education, healthcare, home-making, widowhood, old age, death and the need for an inheritance for one's heirs. They tend to have a certain degree of *predictability* that makes planning and managing them more feasible.
Structural Risks tend to be long-term or permanent changes in the national or international economy. In East Africa, as in many other developing countries, some of the most conspicuous structural factors are strongly linked to the implementation of structural adjustment programmes, and seasonal factors that affect income and expenditure.
Crisis Risks are sudden, unexpected shocks to the household that disrupt its ability to generate income, and are particularly difficult to manage without access to insurance and/or savings.

What Strategies Do the Poor Use to Protect Against Risks?
1. Formal/Semi-formal Insurance Schemes
While very few formal sector insurance companies offer insurance products to the poor, several semi-formal sector financial institutions have responded to this need in a variety of ingenious (and profitable) ways. These usually focus on providing life insurance since the event that triggers pay-out is unequivocal and less subject to fraud/speculative claims.
2. Informal Sector Insurance Schemes
The informal sector has been remarkably creative with the number and diversity of insurance schemes that it has developed. These range from general "life-event insurance" to business insurance. In addition, non-specific reciprocal lending arrangements play a crucial role in risk protection strategies of the poor across the globe – these systems have proved to be remarkably effective in situations where the risk is not co-variant.
3. Savings
Throughout ***MicroSave***'s work, in many, many interviews and PRA exercises, savings are highlighted as a basic indicator of household security, because they provide the "insurance cushion" against which income shocks to the household may be absorbed. There are many ingenious ways in which poor people save including in-kind savings, saving at home, Rotating Savings and Credit Associations, Accumulating Savings and Credit Associations, deposit collectors, money guards, savings clubs, with MFIs and even (in a few cases) with formal sector banks.
4. Other Risk Reducing Mechanisms
Poor people also seek to insure themselves against risk through a variety of means that are not immediately recognisable as "insurance". The most obvious is the wide variety of savings systems established and used by the poor. Others include poor people's struggles to increase income and broaden their asset base, and efforts to diversify household income sources.

Conclusions
Most of these insurance and risk reducing mechanisms remain sub-optimal for poor people and, in East Africa at least, (and probably elsewhere) there remains a tremendous opportunity for MicroFinance Institutions to develop and deliver savings and insurance products in a poor-friendly and responsive manner. Given the risks, the potential demand is huge … it is time that the formal and semi-formal sectors learnt from the mother of invention.

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Background

This paper draws on a series of research studies undertaken by ***MicroSave*** over the last year during which it has used a wide variety of qualitative research tools to understand the complexities of poor people's lives and how they respond to these. Over 2,500 poor people have been interviewed using Focus Group Discussions, in-depth individual interviews and PRA tools including wealth ranking, life-cycle analysis, time series analysis, financial services matrixes, venn/chapati diagrams and seasonality analysis. The paper also draws on international literature on, and the author's experience of, informal insurance systems from around the world.

MicroSave has worked with a wide variety of partners and researchers to understand the lives and needs of the clients, ex-clients and non-clients of a wide variety of MFIs. These are outlined below:

Uganda

PRIDE-Uganda, FINCA, Faulu, FOCCAS, Centenary Rural Development Bank, the Cooperative Bank (Uganda), Uganda Women's Finance Trust, Elgon Village Bank and Ibanda Small Scale Industries Association.

Kenya

K-Rep, Kenya Women's Finance Trust, WEDCO and Kenya Post Office Savings Bank.

Tanzania

PRIDE-Tanzania, the Presidential Trust Fund, SEDA, Kilimanjaro Co-operative Bank and Tanzania Postal Bank

As a result of this work, ***MicroSave*** has produced over a dozen papers on issues facing poor people and their household economies (see listing below) and these are available on ***MicroSave***'s web-site: ***www.MicroSave.net***. ***MicroSave*** has also developed training courses on "Market Research for MicroFinance" and "Focus Groups and Participatory Rapid Appraisal for MicroFinance Programmes".

This paper seeks to synthesise the results of ***MicroSave***'s work to date to examine the risks facing the poor and how they use a wide variety of mechanisms to protect themselves against those risks. In the interests of brevity, the paper does not look at how poor people cope when those risks result in shocks that impact the household economy. Thus the emphasis of the paper is on the preventive rather than the responsive – the prophylactic rather than curative.

What Are The Risks Facing Poor People?

Risks are factors beyond the control of the affected individual or household. They can result in the temporary or permanent disruption of the functioning of the household to such an extent that the income stream required to fulfil the household's basic needs can no longer be maintained. The poor use different strategies to manage different risk factors. It is important that microfinance institutions analyse and understand these differences in order to be able to design products and service delivery systems that are appropriate to the risk management needs of poor people.

Rahman and Hossain (1995) offer a *framework for analysing risk* which looks at the extent to which a specific disruption can be anticipated and hence planned for, as well as the degree to which these disruptions affect the choice of a response strategy.

In this framework, risks are organised as follows:

- crisis risks,
- lifecycle risks, and
- structural risks.

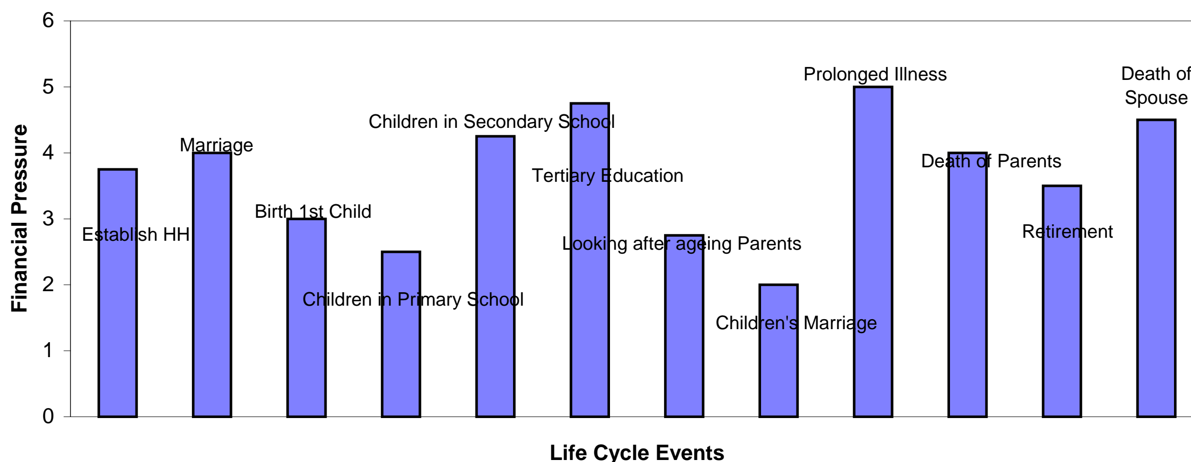
These risks interact to form a complex risk environment, and give rise to a complex range of risk management strategies. These risks overlap and are often related.

Lifecycle Risks

Lifecycle risks are related to such events as marriage and birth, education, healthcare, home-making, widowhood, old age, death and the need for an inheritance for one's heirs. They tend to have a certain degree of *predictability* that makes planning and managing them more feasible. Regular savings are important for financing life cycle events because they often require substantial sums of money, often at short notice. However, these lifecycle risks can become, or generate, crises if they are not adequately planned for and insufficient savings/insurance cover have been accumulated to manage them.

MicroSave used Lifecycle Profile PRA techniques in a variety of settings to get an idea of what lifecycle needs the poor face at different stages in their lives. The chart below illustrates the results for four women groups most of whom were between the ages of 26 and 40. As demonstrated in the graph there are typically four overwhelming life-cycle events that require relatively large amounts of money. These are wedding ceremonies, education (secondary and tertiary), prolonged illness and the death of a spouse. Of course there will be serious variations among different socio-cultural groups and geographical areas of in terms of lifecycle events that demand relatively large lump sums of money. This therefore stresses the crucial need for market research by MFIs in their various areas of operation to determine client needs in different locations so that appropriate products are designed.

Graph: Life Cycle Events and the Relative Need for Lump Sums in Urban Kenya.



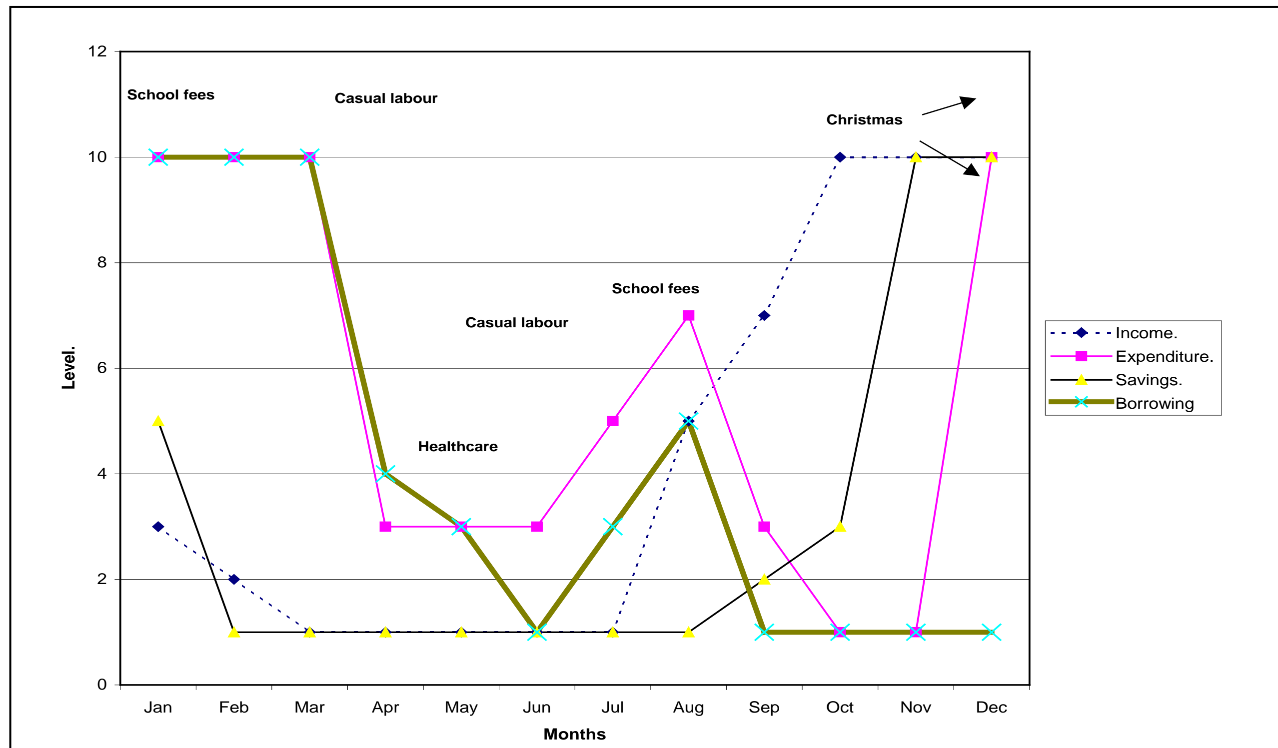
Structural Risks

Structural risks tend to be long-term or permanent changes in the national or international economy. In East Africa, as in many other developing countries, some of the most conspicuous structural factors are strongly linked to the implementation of structural adjustment programmes, (macroeconomic stabilisation followed by the liberalisation of prices and markets) and seasonal factors that affect income and expenditure.

The impact of structural adjustment-related policies has been significant and multi-directional. While on one had, the freeing up of prices and markets have created new opportunities for private sector economic activities, the continued downsizing by government and reduction of basic services such as healthcare has profound impact on poor households. A number of poor households have lost an important stable income source. This has forced many to start micro-businesses, take on more jobs, migrate to distant lands, get children out of school, and send the children to village in order to adjust to the challenges created by the lost income.

Seasonality PRA exercises with the poor in various parts of East Africa reveal that many of the micro-businesses suffer from instabilities caused by seasonal variations in income and expenditure. Many of the trading and retailing activities generate the highest returns around Christmas (October, November, December) often leaving business and household severely cash strapped for the other months of the year. In absence of savings this pattern exposes households to severe risks especially in the areas of health care and education related expenses. This seasonality is even more pronounced in rural areas, which usually has a spill-over effect into urban areas.

Chart: Seasonality of Income, Expenditure, Savings and Credit.



The above chart is illustrative, and is a seasonality calendar of a farming community in Moshi, Tanzania.

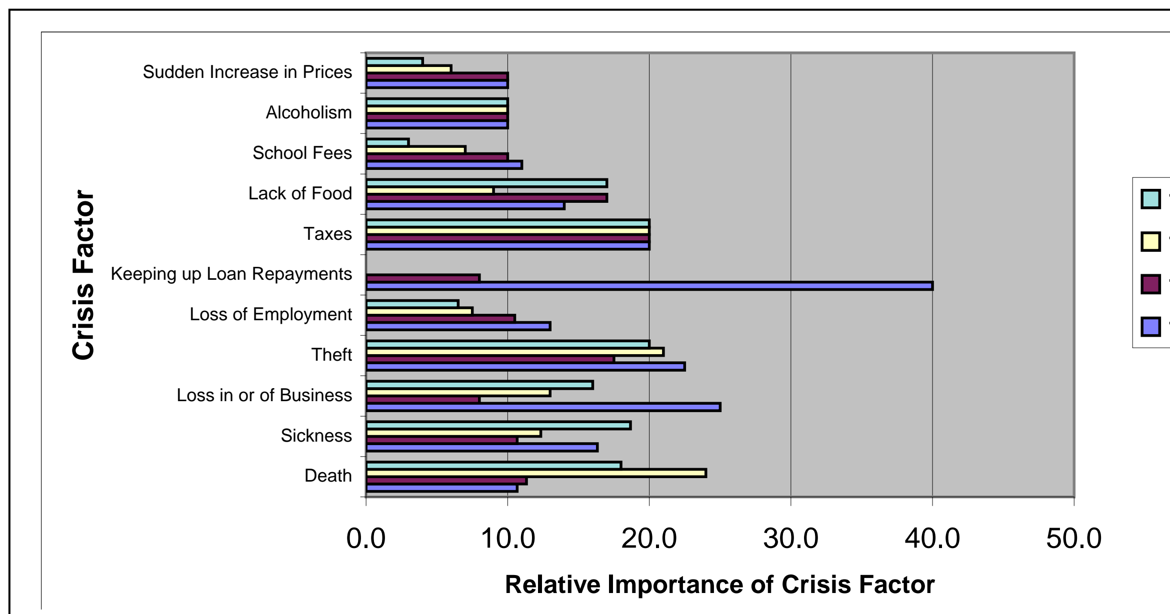
Crisis Risks

Crisis risks are sudden, unexpected shocks to the household that disrupt its ability to generate income. Oftentimes they are a result of poor planning of lifecycle events and lack of safety nets in the face of structural risks. They demand emergency interventions. This generally requires the adoption of either short-term or long-term strategies, which may include sale of productive assets or permanent downward revision of household consumption budget. Short-term coping strategies get the household through the immediate stress situation before it can resume functioning on its pre-crisis level.

Research among households affected by crises revealed a long list of such shocks. Illness or the premature death of major bread earner, fire, accidents, thefts and cheating were frequently mentioned as triggering crises. The economic and social costs associated with such a shock tend to be enormous. Not only do they generate considerable expenditure, but can also lead to a permanent loss of revenue for the household if the major productive assets and/or main bread earner is affected. It was noted that women are particularly vulnerable after losing or being abandoned by their husbands and the associated loss of status. Households with savings tend to fare better than those without.

The chart below showing the relative importance of crisis factors for Uganda Women's Finance Trust clients in Kampala, shares a lot of similarities with other areas in East Africa, and demonstrates the possibilities for innovative product design and marketing strategies.

Chart: Crisis Factors Over Time



What Strategies Do the Poor Use to Protect Against Risks?

These sources of risk interact to form a complex risk environment, and give rise to a complex range of strategies used to protect against them. This paper focuses on their precautionary strategies, which are intended to reduce the household's risk exposure and smooth the flow of income before loss occurs.

1. Formal/Semi-formal Insurance Schemes

The first point to note is that in almost no country in the world has the **formal sector insurance industry** designed products for poor people … not least of all since it perceives that the cost of collecting the premiums as prohibitively high. Furthermore, in East Africa at least, the formal sector insurance industry is usually unable to provide services to poor people because of its chequered history and bad reputation. Nonetheless, it is quite clear that there is a significant demand for insurance products amongst poor people, and it is important to note that several formal and semi-formal sector financial institutions have responded to this need in a variety of ingenious (and profitable) ways. These usually focus on providing life insurance since the event that triggers pay-out is unequivocal and less subject to fraud/speculative claims.

Co-operative Life Insurance in the Philippines
From Rutherford, 1997a

The "Mortuary Aid Plan" at Besao Co-operative works like this: when a member dies his or her heirs receive 15 pesos ($0.43) times the number of Co-operative members (currently 1,500 people, yielding 22,500 pesos [$642.86]). Members buy in to the scheme with an initial payment of 300 pesos or $8.57 (good for twenty deaths) and thereafter pay (through automatic deduction from their savings accounts at the Co-op) according to the number of actual deaths.

On the other hand, the "Mutual Assistance Scheme" at Kiangan Community Multi-purpose Development Co-operative (KCMDC) works through annual contributions made by each member. All (now totalling 1,711) members of KCMDC are required to buy share capital of 500 pesos ($14.29), but most buy at least 1,000 pesos ($28.57) of share capital as this gives them access to KCMDC's Mutual Assistance Scheme ("for heirs of the deceased") to help with funeral expenses. Under this scheme, participating members pay 75 pesos a year and receive 90% of $1/5^{th}$ of the total contributed on the death. Thus in 1997, 1,620 members participated in the scheme, contributing a total of 121,500 pesos ($3,471.43), and upon each death, the heirs received 21,870 pesos ($624.86). The 10% (and whenever there are less than 5 deaths among subscribers, the remaining funds) are credited to a buffer account to deal with years when more than 5 members die (as happened in 1996) - this account stood at 59,463 pesos (35 pesos [$1.00] per member) as of December 31, 1996, prior to starting to collect 1997 Mutual Assistance Scheme dues.

A private sector insurance company, Delta Life, in Bangladesh has combined a life insurance product with a Grameen type loan programme … and is making handsome returns (see box below).

Gono Bima: Profitable Life Insurance in Bangladesh
From Rutherford (private correspondence)

Gono Bima, an offshoot of Delta Life, a private insurance company, offers a stripped-down life assurance product tailored for poor people - a no-frills policy with no medical check requirements, fixed ratios, and fixed equal monthly premium payments. The cash inflow from premiums is recycled in Grameen-style loans. The product thus combines the annual fixed savings-to-lump-sum swap as practised by Grameen and ASA with long-term savings against one event (death of the insured person). The product is popular and Gono Bima is expanding fast. By the end of 1997 Gono Bima had 513,000 policy holders insured for $112m assured sum ($220 each). 11,500 borrowers with loans outstanding of $511,000. Loan value disbursed $782,000 ($67 per borrower). On-time recovery rate of loans, 79%.

Several MFIs have combined life insurance with a policy that ensures that any loan balances outstanding are also paid off by the insurance policy – thus better securing their portfolio and the family of the deceased.

Loan and Life Insurance in Bangladesh and Kenya
From SANMFI, 1998

ASA offers all its borrowers a life insurance policy. The sum assured is equal to the face value of a loan, and premiums are equal to 0.5% of the face value of the loan, paid up-front on disbursement of the loan. The sum assured is paid to a nominated family member of a borrower upon death, less any loans outstanding with ASA. Premiums are only paid for three consecutive years/loans, thereafter the member is automatically assured for the face value of any subsequent loans without paying premium.

WEDCO in western Kenya offers a similar system.

Other MFIs have taken this one step further by contracting out the life insurance product and extending it to provide a lump sum to the loanee's family as well as paying off the outstanding loan. In addition, in recognition of the additional financial stress resulting from funeral expenses etc., some have included other family members in the insurance cover … thus (once again) protecting the investment in the loans to their clients.

FINCA Uganda's Revised Life and Disability Insurance Product

From FINCA Uganda Internal Instructions to Credit Officers, 1999.

As a strategy to ensure/insure repayment in case of injury and/or death due to domestic and outside accidents, FINCA has organised an open-ended insurance policy for its clients. This is underwritten by American International Group (AIG) and is referred to as "Group Personal Accident". It is tailored to suit the needs for protection against hazards caused by accidents. As part of the loan interest, the client is covered under the policy the benefits of which include:

a. in case of the death of the client resulting from an accident (bodily injuries), AIG pays Ush 1,200,000 ($827.59) plus the loan balance outstanding to FINCA;
b. in case of the death of the husband of the client as a result of an accident, AIG pays Ush 600,000 ($413.79) to the client;
c. in case of the death the client's child/dependent as a result of an accident, AIG pays Ush 300,000 ($206.90) to the client. This covers up to a maximum of 4 legal children/dependants; and
d. in case of death of a client as a result of natural death or as a result of any disease (but not AIDS) AIG will pay the loan balance outstanding with FINCA.

Under the previous policy negotiated with American Insurance General FINCA Uganda had offered an insurance policy that also covered some basic medical and temporary and permanent disability cover. FINCA Uganda is now working with Nsambya Hospital to pilot-test a health insurance scheme, which will operate in broadly the same manner as the Ishaka scheme outlined in the box below.

Health Insurance Scheme in Uganda

The Ishaka Community Health Plan scheme works, like all insurance mechanisms, by pooling members' risk. The quarterly premium of Ush. 6,000 ($4.14) covers a family of four for all the basic in and out-patient health care provided by the Ishaka hospital. The family members need only make small additional "co-payment" contributions of Ush. 500 ($0.35) for out-patient and Ush. 1,000 ($0.70) for in-patient every time they present at the hospital. 1,000 members have already enrolled in this Plan and the numbers are growing fast … so much so that Ishaka hospital is now moving towards developing preventive health care in order to try to reduce the flow of patients to the hospital, and thus save costs.

2. Informal Insurance Schemes

The informal sector has been remarkably creative with the number and diversity of insurance schemes that it has developed. These range from general "life-event insurance" to business insurance. In addition, non-specific reciprocal lending arrangements play a crucial role in risk protection strategies of the poor across the globe – these systems have proved to be remarkably effective in situations where the risk is not co-variant.

Some types of life-cycle events are so high cost in nature that poor people have developed informal systems to insure themselves against them, often through mutual support/reciprocity groups such as the *Munno Mukabi* in Uganda or *Harambee* in Kenya.

Ugandan *Munno Mukabi* – Indigenous Insurance
From Wright, 1999

A very popular type of self-help group is known as *Munno Mukabi* (which translates to "Friend In Need Associations"). At the inception, a budget is agreed and split equally among the members. The proceeds are used to purchase such assets as are required for most household social functions that draw large numbers of people. These items include large saucepans, dishes, lanterns, canvas etc. The functions include burials, weddings, children's graduations, baptismal parties etc. After the initial capital investment is made, members attend weekly or monthly meetings at which a collection is made. One group for example, collects Ush. 200 ($0.14) per head per sitting, others collect up to Ush. 5,000 ($3.44). This money is kept and lent out whenever a crisis strikes. Members also pledge to make a predetermined financial contribution and to make their labour available whenever a member faces a crisis or holds a celebration.

These systems effectively spread the cost of these life-cycle ceremonies over time, thus allowing participants in the schemes to contribute in a series of frequent but small and regular sums, as opposed to being faced with debilitating, infrequent but large and irregular, lump-sum requirements.

The poor also use informal systems that are broadly similar to formal sector insurance schemes usually through regular financial contribution. These schemes are generally used (as with formal sector insurance) to spread the risk of high-cost events: in the two boxes below funerals or loss of business through fire or accident.

Indian Funeral Cost Funds
From Rutherford, 1996

In return for a subscription of two rupees per week into a Funeral Cost Fund (or *Merana Fund*) a household in Cochin can claim immediate funeral costs following the death of any of its members, at the rate of 1,000 rupees ($22.22) for each death (or 500 rupees [$11.11] for children). Funds run for a year at a time and any unused subscriptions are returned to members at the year end (though higher-than-average incidence of death in the early weeks of the scheme may oblige members to make extra subscriptions). We heard of sums of up to 30 rupees ($0.67) being returned, giving, for a six-adult household, an annual cost of 74 rupees (52 weeks at 2 rupees less 30 rupees rebate) for a 6,000 rupees ($133.33) insured sum, or 12.30 rupees per thousand per year. Although this figure may be more expensive than life insurance offered by the state-owned insurance corporations, subscribers to FCFs can rely on immediate access (often within an hour of the death) free of paperwork.

Popular actuarial experience seems to show that a membership of not less than 300 subscribers is needed to keep a scheme running without having to ask for frequent extra subscriptions, and we heard of schemes that have been running in this way for up to thirty years. At this size, not all members will know each other, and schemes may cover more than one neighbourhood. Some poorer members know little about who runs their particular scheme. Perhaps for this reason, we found considerable formality in the running of the schemes. There are printed pass-books for each member in which the rules are set out. There are set times for paying subscriptions, and set rules for Fund functionaries. For example, in a scheme we investigated in detail in Ward 18, the Secretary holds one sum of 1,000 rupees in cash at home, and the Treasurer two such sums, in order to guarantee instant pay-outs to bereaved families. The balance is banked.

Schemes we investigated are run on a voluntary basis by groups with some identity in the area, such as religious congregations. But schemes do not appear to limit membership to their own 'kind', and in any one neighbourhood there may be several schemes running at any one time, allowing those who can afford it to enrol in more than one scheme. FCFs appear to be extremely widespread. We heard about them from every respondent in every area of the city and poorer households appeared as likely to join as middle-income ones. Estimates of what percentage of poorer households join such schemes ranged up to 90%, and it was rare to find households that do not belong.

Insurance Schemes For Small Shopkeepers in Bangladesh and Uganda
From Rutherford, 1996 and Mutesasira, 1999a

The slums of Dhaka are subject to damage and destruction by floods, by fire (most construction is of inflammable material and open fires for cooking are the rule) and by the bulldozers of the City Corporation. In 'BNP Bazaar', a market street in one such slum, several hundred small tradesmen and shopkeepers set up an insurance fund about eight years ago. Everyone puts in 2 taka a day (about $0.04) and it is banked by an eleven-man committee. Three times they have drawn funds and used them to repair damaged shops and workshops - once by fire and twice by bulldozers.

Similar schemes are operating in Kampala amongst vendors. In one case 15 soft drink vendors each contribute Ush.500 ($0.34) per day for a three months period. In the event of a loss due to fire or theft, the fund is used to re-capitalise the business to a certain level. If no one suffers a catastrophe within that period of time the fund is re-distributed with a small profit - profits are made since the members can borrow from the fund.

Many poor people set up reciprocal arrangements where by they insure themselves against future emergencies by lending. Lending to my neighbour today sets up a reciprocal arrangement under which my neighbour will lend to me in times of need (see box below). As Jean-Philippe Platteau (1997) argues, "when they [traditional rural communities] enter into such arrangements [informal risk-sharing arrangements] members of these communities are guided by a principle of balanced reciprocity (they expect a return from any contribution or payment they make) rather than by a true logic of mutual insurance".

Filipino "Gawat" Groups – Reciprocal Insurance or Saving by Lending
From Rutherford, 1997a

Throughout the Cordillera in Northern Luzon, there is extensive informal lending between villagers. Most loans are taken for consumption and are from family friends and neighbours on a reciprocating basis (that is, both sides understand that the borrower is obliged to offer a loan back to the lender at some unspecified future date, but not of any fixed amount). Loans are typically given at no or very low interest, and the terms/length are varied and loose, with little use of guarantors or collateral, and rare inter-linking of credit with other factors. Borrowers and lenders know each other and each other's affairs well: they exchanged loans and gifts in the past, and will do so again.

These arrangements are "Not so much a market as a network of relationships," and Lund (1996) surmises that they provide insurance and thus smooth consumption. Almost every household is involved: only 3 out of 206 households had not done it during the study's 9-months period, and nearly half of such loans are between first-degree relatives. Repayment is rapid - mostly 2 or 3 months, at borrower's convenience. Repayment is very good (only 1 in the 1,142 studied by Lund were in default), enforced by threat (or fear) of exclusion from future deals. The average value of the loans studied by Lund was 1,170 pesos ($33.43).

This phenomenon is by no mean confined to Asia, Temu (1994) and Mutesasira (1999b) also note the importance of non-monetised credit offered to friends, family and neighbours in Tanzania. They explain it the terms of the reciprocity element - the borrower will in the future lend to the lender - which is important in building up trust.

This rationale is mirrored in the formal and semi-formal sectors in which savings are often deposited in order to get access to loans – often in response to emergencies. Indeed this is the primary reason for saving amongst many (and probably most) of the co-operatives and village banks in West Africa (Goldstein et al, 1999) and the world. "Savings and Credit Co-operatives" are generally primarily "Savings to get Credit Co-operatives" !

3. Savings

Throughout ***MicroSave***'s work, in many, many interviews and PRA exercises, **savings** are highlighted as a basic indicator of household security, because they provide the "insurance cushion" against which income shocks to the household may be absorbed. There are many ingenious ways in which poor people save including in-kind savings, saving at home, Rotating Savings and Credit Associations, Accumulating Savings and Credit Associations, deposit collectors, money guards, savings clubs, with MFIs and even (in a few cases) with formal sector banks. The advantages and disadvantages of these various systems are complex and beyond the scope of this paper (see Rutherford, 1999, Mutesasira, 1999a and Wright, 1999a for extensive discussions of this).

During the ***MicroSave*** field work there were many examples of people who cushioned themselves with their MFI-based savings when faced with shocks or crises. This was in spite of the relatively small volume of savings they keep with the MFIs in comparison to other institutions. The most common shocks that triggered savings withdrawals were school fees and illness of a household member or a significant member of the extended family. In some cases savings were withdrawn to meet loan repayments.

How Savings Saved A Year
From Wright et al., 1999

"Like most parents we have faced a lot of trouble with school fees," recounts Alice, "and only that savings account could come to my rescue." Her husband's business had once again hit a snag and so the children returned to school while the fees remained unpaid. It was not long before her son was sent back home from school. This was a severe crisis since he was about to sit for his final exam. The school informed the family that it was not in the habit of offering exams on credit. Panic-stricken, they both looked around for a source of money but were stuck. "I had to think fast and the only place I could find money was on my Uganda women's Finance Trust (UWFT) savings account." Alice once again went to UWFT and withdrew the required amount - and was able to save a year. "You see if a child misses the final exams they have to wait for another year before they can sit again. Now that can be a real household crisis."

Throughout East Africa, MFI clients establish Accumulating savings and Credit Associations (ASCAs) within their MFI guarantee group to help deal with emergencies … including the stressful activity of keeping up the weekly loan repayments required by most MFIs.

The *Kibindo* System – The Lender of Last Resort
From Mutesasira, 1999b

The *kibindo* system, which translates to "last resort" is an ASCA organised with an MFI client group, which is typically 40 members. It is found mainly among Presidential Trust Fund (PTF) members. All PTF groups have a *kibindo* and is managed and controlled by the members themselves - PTF has no hand in it. The most common weekly contribution to a *kibindo* is Tsh.500, with a range from Tsh.200 ($0.29) - Tsh.1,000 ($1.43). Members take loans from *kibindo* and they range between Tsh.5,000 ($7.14) to Tsh..50,000 ($71.40) at a 5% weekly interest rate repayable in three weeks. *Kibindo* fund is distributed to the members at the end of the loan cycle according to contributions. In an average cycle about 10 members out of 40 members in the centre will take a loan from it with some members take more than once.

The *kibindo* is thus very good for both the MFI and the clients. It acts as a short term saving device and as a short-term emergency loan facility. It helps the members to deal with pressing financial problems. It is also used by the groups to pay loan instalments for members who fail to meet their repayments. The major risk with the *kibindo* is that it is based on trust: an individual, designated as treasurer (popularly referred to as "Mama Kibindo") keeps the money in her custody, keeps records of deposits, loans and interest paid by each loanee, a job that is often challenging.

4. Other Risk Reducing Mechanisms

Another common strategy used by many households to protect against risk is **diversification of sources of income**. During the PRA sessions using seasonality calendars and other tools it was clear that a lot of households diversify to smooth seasonal troughs in income availability. Most businesses enjoy their highest sales during the Easter as well as Christmas season yet school fees and other expenses are tied to the school calendar. That is why it is not uncommon to find a household running several lines of business that have varying levels of cash-flow at different times of the year and in different trades.

101 Things to Do With Chickens
From Wright et al., 1999

"I started out with broilers to make quick money. You can sell them off every two months. Now I am adding layers, which take six months. But once you start selling eggs, the money comes in continuously. I hope to use this money to invest in my plantation - including the chicken droppings as fertiliser!"

Many of households interviewed have diversified economic portfolios that include various types of enterprises, rental income and salaried income. In some cases the client is managing a range of very different activities, each contributing to the goals of the household in different ways. They tend to be differentiated in terms of their demand on the household members' time and management capability. Loans from MFIs are sometimes distributed between the various economic activities. As one UWFT member said, "Apart from the business I do in the shop, my husband also lends money to *matooke* traders who pay him back with interest. I also have another source of income, I sell food in the evening market when I go back home."

A lot of combinations of activities reflect a mix based on regularity of income flows. Some businesses such as sale of charcoal, beer, popcorn and water are important sources of regular, and often daily, income. One example is a woman who on top of charcoal (for daily cash flow and weekly loan repayment) rears poultry – which involves selling a large batch of chickens for Christmas and Easter time, thus generating useful lump sums at these times.

Diversification Into Financial Services – Loan Use Strategy Over Time
From Wright et al., 1999

In addition to her other businesses, Mary has diversified into earning interest by on-lending her MFI loan. Mary is a widow. She lost her husband in 1991 and now supports four children ranging from 13 to 19 years. She has had four loans and is an example of the creativity and ingenuity of micro-entrepreneurs in their attempts to diversify their income sources.

She used her first two loans for working capital to expand her existing firewood selling business. She divided the fourth loan (Ush. 500,000) between the purchase of a refrigerator (Ush. 200,000) which she rents out at Ush. 4,000 per day, and a loan (Ush. 200,000) to her brother on which she charges interest of Ush. 30,000 per week for 16 weeks. The final Ush.100,000 she kept for "contingencies."

At the end of the fourth month the brother will pay the principle in one lump some. At this time she anticipates to have a refrigerator which will continue to earn rental income to pay her children's school fees, plus Ush. 200,000 from her brother, which she will add to her savings. She intends to use her savings for a building project. By using the loan to invest in a refrigerator (physical asset) and loan to her brother (financial asset), she is generating income to invest in her children's education (human assets) and a house (additional physical asset).

While **assets** were often mentioned as protection mechanisms or ways of responding to crisis in several Focus Group Discussions, individual interviews indicated that retention of physical and financial assets was a major goal of households. Several clients interviewed indicated reluctance to sell assets or cash in savings in

response to a crisis. Many said they would rather sell stock from their businesses (even at a loss), work harder and longer, or seek assistance from family members in response to a crisis. This apparent contradiction may arise from differences in theoretical ways of responding as compared to actual response; or from the perceived loss of dignity or "face" that occurs when one is forced to sell personal assets in times of need. The purchase of assets that can be sold in emergency is a strategy that seems to be commonly practised by men, although some women said they also do it, (though usually with different assets from those preferred by men). Men buy land and cattle and build rental houses, while women typically buy household utensils for this purpose. These patterns reflect the gender-differentiated ownership of assets, particularly in the "breakdown position" of separation. However, more recently women have also started investing in rental rooms, and in some cases in land in their own home villages to increase the chances of being able to retain it on dissolution of the marriage or death of the husband.

Moveable Assets In Case of Breakdown
From Wright et al., 1999

As we discussed empowerment with one group, they became quite animated – in common with many women they had experienced (or seen at close quarters) the breakdown of marriages. Many women were expelled from their homes with only their children and the clothes they were wearing, leaving them destitute and desperately vulnerable. As a consequence, the women had a clear understanding of the importance of owning assets themselves.

"If you have your own assets, at least you have somewhere to start from. These days women know their rights and resist being thrown out without their property, but you have to own the property to claim it."

In addition to using MFIs' loans, some of clients interviewed were also members of Rotating Savings and Credit Associations (RoSCAs)[1] in order to gain access to large "chunks" of money for investment to **increase their income and broaden their asset base** in a bid to reduce risk and vulnerability.

In some cases the clients have become even more creative and ingenious in order to transform small MFI loans into large loans through a combination of access to credit and membership to a RoSCA. Members also work round MFIs' systems to create larger loans. Some members plan to form smaller groups of say three individuals each, obtain small loans from the MFI, lump them together and give the lump to one person. They intend to maintain individual responsibility for making weekly repayments. Others have enrolled twice in a group under different names, or enrolled a close relative in the group. These clients believe that larger loans will give them greater leverage in income generation and asset accumulation.

Making Small UWFT Loans Big – Creative Financial Packaging
From Wright et al., 1999

"We are too far behind in terms of development," said a member of Ishasa Women's Group. "Our incomes are too low. The loans are too small. However, when we get more money we will buy bigger assets. Let me tell you why we have hope. We will form smaller groups within our UWFT group. When we get our loan of Ush. 500,000 four of us will give all our loans to one member. With Ush. 2 million shillings one will be able to do bigger things. We would then continue to repay the loan individually from other sources until it is our turn to get the Ush. 2 million. We shall do this for all subsequent loans until we all have had a chance to get a big chunk of money. This is the only way I can see us helping each other using UWFT credit to develop faster."

[1] Membership in RoSCAs ranges between 3 to 10 individuals. Among most RoSCAs the collection range from daily to weekly and the amount range from Ush.1,000 to Ush. 10,000. Some clients belong to several and have found them to be extremely useful and effective way to acquire productive assets or restock their businesses.

Conclusions

Poor people face a wide spectrum of risks and use a wide spectrum of insurance systems to address those risks. The vast majority of the insurance mechanisms used by poor people are informal in nature. There is however, a growing interest in, and effort to provide, semi formal sector insurance mechanisms and, in some cases, efforts are being made to link MFI clients to formal sector insurance companies.

Poor people also seek to insure themselves against risk through a variety of means that are not immediately recognisable as "insurance". The most obvious is the wide variety of savings systems established and used by the poor. Others include poor people's struggles to increase income and broaden their asset base, and efforts to diversify household income sources.

Most of these mechanisms remain sub-optimal for poor people and, in East Africa at least, (and probably elsewhere) there remains a tremendous opportunity for MicroFinance Institutions to develop and deliver savings and insurance products in a poor-friendly and responsive manner. Given the risks, the potential demand is huge … it is time that the formal and semi-formal sectors learnt from the mother of invention.

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