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The Demand for Risk-managing Financial Services in Low-income Communities: Evidence from Zambia

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Foreword

This study on the demand for risk-managing financial services in Zambia was completed thanks to the generous funding of the Dutch Government as part of the Dutch Partnership Program with the International Labour Organization (ILO). This paper forms part of a multi-country project that seeks to understand the risks that low-income entrepreneurs face, their coping strategies, and the potential role that insurance can play in managing those risks.

Low-income entrepreneurs are particularly vulnerable to risks. Lacking adequate financial and other assets, the poor are exposed to the smallest economic shocks. Their vulnerability is exacerbated by the fact that low-income persons tend to live and work in riskier environments than wealthier people, with a greater likelihood of illnesses, accidents and thefts. Furthermore, low-income entrepreneurs do not usually have access to effective risk management strategies.

The authors systematically analyse the risks to which low-income entrepreneurs in Lusaka are vulnerable and their coping strategies. A comparison of risks and coping strategies is used to identify possible gaps that could be filled by risk-managing financial services, such as savings, emergency loans and insurance. Focus group discussions and PRA techniques provide valuable insights into how clients perceive these financial services.

The results indicate that vulnerability does not automatically translate into a demand for insurance. The study demonstrates that a majority of respondents are either wary of insurance or not sufficiently familiar with it. Indeed, microentrepreneurs show a strong preference for improved savings facilities and emergency loans to help them cope with risks, rather than insurance. It is unclear, however, whether an effective social marketing campaign could help change the perspective of, what the authors call, a “skittish market.”

In addition to the analysis of original primary data on risks and coping mechanisms, this paper contributes a fresh look at innovative design and delivery mechanisms for demand-driven, risk-managing financial services. For business-specific risks, the research reveals that business skills training, marketing support and other non-financial services would be more appropriate interventions to reduce vulnerability than financial services.

Many of the lessons learned in this study have been incorporated into a training manual developed by the Social Finance Programme (SFP) with the InFocus Programme on Boosting Employment through Small Enterprise Development (IFP/SEED), which will be used to train the managers of microfinance institutions in introducing and managing microinsurance products.

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Table of Contents

List of Figures

List of Boxes

List of Tables

Glossary of Terms and Acronyms

BPF	Borrowers' Protection Fund
Chilimba	Traditional (informal) savings system like a ROSCA
DFID	Department for International Development
FGD	Focus Group Discussion
Kaloba	Money lending
LIF	Loan Insurance Fund
Lobola	Bride price
MFI	Micro Finance Institution
MIS	Management Information Systems
NGOs	Non-Governmental Organisations
PRA	Participatory Rural Appraisal
RAs	Research Assistants
ROSCAs	Rotating Savings and Credit Associations
Salaula	Selling used clothes
SWOT	Strengths, Weaknesses, Opportunities and Threats Analysis
UTH	University Teaching Hospital
ZMK	Zambian Kwacha (Exchange rate used US$1 to ZMK3800)

CHAPTER 1: EXECUTIVE SUMMARY

Risk management has always been an objective of microcredit customers. Most microfinance institutions (MFIs) admit that clients occasionally use business loans to pay for medical expenses, funerals, or to smooth household cash flow. Even if they do not have an immediate emergency, some customers only invest a portion of the loan in their businesses and they save the rest so that they will have a cushion to fall back on if they experience repayment problems. In these examples, clients use a product designed for one purpose to fulfil a different objective because that is the only financial service that is available.

MFIs are beginning to tailor products so that they more accurately fit the purpose for which clients use them, including risk management. The three main types of risk-managing financial services are: 1) convenient savings accounts (including both passbook savings and contractual savings) from which clients can draw down to reduce the effects of an economic stress; 2) emergency loans, which are designed very differently from standard microenterprise loans; and 3) microinsurance, which could include coverage for death, illness, disability, theft and (possibly) drought.

As MFIs begin developing risk-managing financial services, it is important to understand the demand side: to which risks clients are most vulnerable and how do they cope with those risks? By sifting through data on risks and coping mechanisms, this research attempts to assess the demand or potential demand for microinsurance and other risk managing financial services among the poor in peri-urban compounds around Lusaka.

1.1 Research Methodology

The information gathered through this study is intended to provide an insight into the behaviours and needs of segments of the microfinance market and hence establish the basis for the design and development of demand-driven risk-managing financial products. The research agenda addressed the following key questions:

1. To what economic stresses are low-income households and businesses most vulnerable?
2. What coping mechanisms do low-income households use to alleviate the impact of economic stresses?
3. How do these views vary across demographic variables, such as gender, income, and level of education?
4. What are the strengths and limitations of the prevailing coping mechanisms?
5. Is there a potential demand for insurance?
6. What are implications for MFIs that want to develop risk-managing financial services?

Three research methods were developed to be tested in this case study: 1) unstructured interviews or personal histories, 2) focus group discussions (FGDs) and 3) structured interviews. Three hundred and thirty five respondents were involved in this research: 90 for the FGDs, 45 for unstructured interviews, and 200 for structured interviews. The majority of the respondents were drawn from the clientele of Pulse, a Zambian MFI, including all of the respondents for the unstructured interviews and focus group discussions; a third of the sample for structured interviews were non-clients who came from a similar socio-economic background.

1.1.1 Research Partner: Pulse

Pulse, one of Zambia's oldest microfinance institutions, employs a solidarity group lending methodology to assist microentrepreneurs in poor, densely populated compounds of Lusaka, the capital city of Zambia. CARE International launched Pulse in 1995 with initial support from Canada, and thereafter from the UK Department for International Development (DFID). The organisation was recently set up as an independent NGO known as Pulse Holdings Limited. As of June 2002 Pulse had 4,039 active borrowers; the average outstanding loan was about US$65.

Pulse is largely a minimalist microcredit program although loan officers do provide some business skills training during group meetings. Besides the group guarantee, Pulse's lending methodology requires clients to deposit 20 percent of the initial loan amount as collateral known as the loan insurance fund (LIF).[1]

Pulse has experienced significant delinquencies and write-offs that can be attributed to death and illness, either of borrowers or their family members. In response, in 2000 Pulse introduced a Borrowers Protection Fund (BPF). To separate its lending and insurance risks, and to provide its clients with greater value, in 2001 Pulse established a partnership with a local insurance company to run the scheme as mandatory Credit Life Insurance.

1.1.2 Pulse Clients

Pulse primarily targets microenterprise owners who are poor but economically active. The organisation does not try to reach the poorest households and does not use means testing to determine eligibility. Typical Pulse clients are married, aged 30 to 39, educated mostly up to primary or secondary level, living in a household of 5 to 9 persons in peri-urban areas. The majority of Pulse clients can read and write though some with difficulty; roughly 15 percent are illiterate. Average household income per month is ZMK 670,000 (US$175), including proceeds from the business and other sources; 55 percent or respondents earn less than ZNK500,000 (US$132) per month, including 19 percent that earn less than ZMK250,000 (US$66). Sixty percent of Pulse clients are women. Most businesses are retail trading, such as selling household goods and groceries; only a few are in simple manufacturing or service industries.

Pulse clients usually have several children and dependents in school. Their houses often have electricity and plumbing; half of Pulse clients own their houses and half rent. Informal savings is very common, especially among women who belong to savings groups. The microenterprise served as the main source of household income for 98 percent of Pulse clients. Most households have other sources of income, although this does not always seem to reduce their degree of vulnerability. For a more detailed description of the socio-economic characteristics of Pulse's clientele and the research sample, see Appendix 1.

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[1] Loan "insurance" fund is a misleading name; it is not a form of insurance as the name suggests, it serves as security for the loans disbursed.

1.2 Key Findings

The primary findings from this research fall into four categories: 1) the economic stresses to which low-income persons are exposed; 2) their coping strategies; 3) business risks and coping strategies; and 4) knowledge and perception of insurance.

1.2.1 Primary Economic Stresses

To better understand household cash flow constraints, this research looked more broadly at economic stresses rather than just risks. Economic stresses include shocks, such as the death of a family member, as well as gaps between income and expenses caused by large payments such as rent and school fees.

This study revealed that shocks, particularly death and illness, are the most crucial economic stresses confronting low-income households in these communities. Each research method revealed that death was the number one economic stress. Whether the deceased was a household member, friend, neighbour or a relative, respondents were obliged to contribute towards the funeral expenses. Total funeral costs were usually in the range of US$132 to $158 and the respondents' contribution to that amount depended on both their economic status and the strength of their relationship to the deceased.

The second biggest economic stress was illness. While the government medical scheme seems affordable (a registration fee of US$0.66 and monthly contribution of US$0.40), many respondents identified health care as a significant economic stress because of the high cost of prescriptions. Furthermore, the quality of health care in government hospitals and clinics is generally considered poor, so a small percentage of respondents incur high expenses for medical care in private clinics.

The next tier of economic stresses includes the payment of school fees and rent, even though these expenses can be anticipated. For many respondents, cash flow is very tight in January and February when they have to pay school fees and other education expenditures. Those who do not own a house highlighted rent as economic stress, particularly when coupled with other economic pressures such as illness or school fees. Monthly rent ranged from US$19 to $54. Pressure on household expenditure, stemming from large numbers of dependents and frequent money-seeking visitors, were also mentioned as an economic stress. Social events, such as weddings and births, were not considered significant economic stresses.

1.2.2 Coping Mechanisms

To reduce the effect of economic stresses, low-income households use both precautionary and response strategies. They prepare to reduce the loss when struck by a crisis and respond using various means to cope when a crisis occurs. These strategies used can be categorised in the form of assets: namely social, physical and financial.

Social Assets

Friends, relatives, neighbours, fellow entrepreneurs and the church represented key social assets for the respondents. This support typically emerged in the form of reciprocity: "Assist someone today in order to be assisted some other time when you are in need." The strength of these social assets as a coping mechanism depended on the type of economic stress. People relied on reciprocity when confronted with shocks such as death and illness, but inter-household borrowing was more common to pay school fees and rent.

Many respondents consider the traditional merry-go-round savings system, locally called *chilimba*, as an effective savings mechanism. Women dominate *chilimba* groups; most men felt that such arrangements are cumbersome and should be for women only. Nevertheless, those engaged in *chilimbas* greatly value this facility that allows them to save a regular contractually defined amount. Although the *chilimba* may not serve an effective risk management function, the social relations that it fosters can be useful strengthening ties for reciprocity and perhaps inter-household borrowing.

Physical Assets

Since the research was done in an urban setting, reliance on in-kind savings, such as livestock or grain banks, was uncommon. However, because they do not have access to secure savings mechanisms, 12.5 percent of the structured interview respondents indicated that they purchase assets—usually radios, televisions, stoves and refrigerators—they did not really need. Availability of surplus funds is an opportunity to buy more assets, which they were ready to sell when struck by a crisis.

Financial Assets

Many clients regard the microenterprise loan from Pulse as an important means of enhancing their ability to easily cope with economic stresses. The loan has reduced their vulnerability by increasing their business income and broadening their asset base. It was common to hear, “unlike in the past where it was common to first think of borrowing (from a moneylender) whenever we were faced with a crisis, ever since we started getting loans from Pulse we survive to some extent through business profits caused by a boost in the working capital.”

Microenterprise loans do not provide a complete solution. While they may help reduce vulnerability, Pulse’s lending methodology is not suitable as a coping mechanism after a crisis has occurred. The primary coping mechanism is savings. Although 17.5 percent of the structured interview respondents use formal savings accounts, the majority of respondents had informal savings, either “under the mattress,” in a savings club, or both. The main reasons for not having bank accounts included high minimum balance requirements, lack of surplus funds, and a lack of accessible, secure and affordable banking services.

Since the MFI’s products do not address their needs, low-income persons are forced to borrow from moneylenders for emergencies; this is usually considered a last resort due to 50 percent interest or more charged by most moneylenders. While women dominate *chilimbas*, this study revealed that men are more likely to use moneylenders as a coping strategy. Inquiry on reasons for this phenomenon revealed that women fear the ignominy that follows non-repayment of loans from moneylenders.

Perhaps one of the most interesting forms of financial assets that emerged from this research was the existence of funeral funds, a type of informal insurance prevalent among entrepreneurs in the marketplace. Committees are elected to manage the funds; weekly premiums range from US$0.13 to 0.26. The benefit, usually in form of food, firewood and occasionally cash, typically represented a fraction of the total funeral expenses.

1.2.3 Business Risks and Responses

Business Risks

Since the sample consisted solely of microentrepreneurs, it was expected that they would also be vulnerable to business risks. The results, however, showed that these low-income persons were more concerned about and vulnerable to household crises. This finding is partly because the type and size of businesses were not exposed to real business risks. In addition, without a clear separation between the business and the household, the business was particularly vulnerable to household risks that were more likely to occur and of greater magnitude.

The study revealed that business theft[2] and fire were relatively minor concerns, particularly when compared to the health of the entrepreneur. In effect, the business' most irreplaceable asset is the entrepreneur herself. This issue came out most clearly when respondents identified the lack of a business partner as a risk because this created problems when they were sick. Since the business is usually the main source of household income, the entrepreneur's health had serious repercussions on the household welfare as well.

Although not widely applicable, a few entrepreneurs (18 percent of the structured interview respondents) extend credit to their customers and identified non-payment as a significant risk. Because of the irregular income of their customers, if entrepreneurs do not extend credit, sales can become slow—this is a particular concern for people who sell fresh food that will spoil if it is not sold.

In this research, risk is also defined as a psychological vulnerability. Respondents were mostly worried about things that affect business performance, such as increasing competition, low demand, poor location, etc. Microentrepreneurs in these communities seem to worry more about business performance than business risks such as theft.

Reducing Vulnerability to Business Risks

Business growth, measured by increased net income and assets, is a primary strategy to reduce vulnerability to personal or household risks. This growth approach however was

[2] Only one-quarter of the respondents had paid employees, but those that did have employees, or have had employees, were very concerned about pilfering.

contradicted by the primary strategy to reduce business risk: diversification. Many microentrepreneurs enter new business lines to hedge against, or in response to, downturns in a particular market. Yet the diversion of their attention and limited resources to a number of initiatives may constrain overall growth potential. In a sense, their risk-averse approach to business may reduce the business' ability to reduce household vulnerability.

Business threats, such as growing competition and low demand, were dealt with through business strategies such as improved customer service, offering of discounts, and extending credit facilities.

Orienting a child to business operations was mentioned by many as an effective way of dealing with the risk of being the sole operator. The reliance on household labour also reduced vulnerability to employee pilfering. The majority (75 percent) of the entrepreneurs interviewed in this study indicated some of involvement of household labour in the running of their businesses.

1.2.4 Current Perceptions and Understanding of Insurance

Besides the insurance service from Pulse (which many clients do not even realise that they have), only 6.5 percent of the structured interview respondents had ever purchased an insurance policy. Respondents generally had a shallow understanding of insurance—only a third of the sample could provide an accurate and thorough definition of insurance. Most associated insurance with the protection of property, such as auto, theft and fire coverage.

There was a very strong feeling that insurance was something for rich people, for people who had assets. Focus group discussions clearly indicated that the poor see insurance as unaffordable and inapplicable to them. A number of respondents also noted their concerns about delays in verifying and processing claims.

In sum, 42 percent of the respondents either think that insurance is not appropriate for them or have a negative view about insurance, while another 39 percent do not have sufficient information to form an option. Only 23 percent of respondents had a favourable opinion of insurance.

The FGDs generally concluded that savings and credit are more flexible than insurance, and can potentially respond to a variety of different needs. Savings is preferred to credit because people do not like the pressure to repay loans, especially on top of all their other financial pressures. But for savings to be an effective coping strategy, people need to have some surplus funds. These discussions did not rule out insurance as a coping strategy, but they suggested that it is only relevant for a limited number of purposes. The emergence of informal funeral funds shows that this market is not completely opposed to precautionary risk pooling, at least for death risks.

1.3 Preliminary Conclusions

Low-income households face numerous risks. They manage the corresponding economic stresses by relying on various precautionary and response mechanisms, with mixed results. Microentrepreneurs in the peri-urban areas of Lusaka appear to be more vulnerable to household economic stresses than business risks.

The levels of vulnerability vary across demographic variables; in this study there were noticeable differences according to marital status, gross household income, gender and education. Vulnerability is not only reflected in the types of risks faced by low-income households, but also by their limited access to information and services that could be effective coping mechanisms.

Among the factors that affect the choice of coping mechanisms, the major one was the economic status of a household. Less poor households use primarily reversible coping mechanisms, which included formal and informal savings, while poorer households often must resort to irreversible responses, such as selling business assets or borrowing at exorbitant interest rates. Reversible responses only have a marginal effect on the household's cash flow, while irreversible coping mechanisms either increase subsequent costs or reduce future earnings, and make it difficult for the household re-establish its normal expenditure pattern.

There were significant gender differences as well. Women were much more likely than men to participate in savings clubs and other means to accumulate social capital on which they could rely in crisis situations. Men tended to have weaker social connections and were more likely than women to turn to moneylenders for assistance. Women were also more likely than men to have a formal savings account. Men were also more likely to reinvest any excess cash into their businesses, while women were more apt to maintain a savings buffer for those periods when expenses exceeded income.

The willingness, desire and ability to save were evident in the various ways low-income households endeavour to accumulate assets. Respondents, especially women, were very aware of the need and importance of savings. Although poorer households experienced some difficulties having sufficient resources to save, for the sample as a whole the primary obstacle to saving was convenient access to secure savings facilities. Most formal banking institutions do not provide attractive savings products for low-income households, either because of minimum balance requirements, the location of the bank, or social barriers that discourage the poor from opening accounts. Respondents appear to combine illiquid savings options, such as *chilimbas* and in-kind savings, with a liquid option, most notably “under the mattress” deposits.

Emergency loans would be in great demand in Lusaka’s compounds, particularly if the pricing and conditions differed from those of moneylenders and business loans from MFIs. While low-income households may borrow from moneylenders in the event of a crisis, they dread the loan terms, especially the interest rates, which can worsen a household’s economic status. While the interest rates on Pulse’s loans are considered reasonable, clients often find the loan term and repayment intervals unsuitable. Furthermore, a group loan, which requires several weeks of pre-loan training and which all group members borrow and repay at the same time, does not have the flexibility to respond to urgent needs.

While the demand for accessible savings and emergency loans is clear, the demand for insurance is unclear. Unlike credit and savings, insurance faces a number of challenges, including a lack of familiarity and some negative perceptions. For life insurance, the demand should be there. One out of every three households had experienced a death in the past 18-months, and all had contributed to the funerals of relatives, friends and neighbours; and funerals cost about one month’s worth of household income. Current coping strategies, such as informal funeral funds and relying on the generosity of others, are patchy at best. Indeed, with a larger risk pool and greater economies of scale, a formal insurer could probably provide a benefit that is 5 to 10 times larger than the payouts in most informal schemes, especially if it could rely on existing distribution channels, such as market associations, church groups and MFIs, to keep transaction costs low.

The demand for health insurance is probably weaker since the costs of health care are quite low. Possible exceptions might be prescription coverage or insurance to affordably access better quality services provided private clinics.

Whether for health or life, any insurer targeting the low-income market would be wise to invest heavily in consumer education and advertising. The evidence also suggests that insurers must keep products simple and the claims processes efficient, and adapt the premium schedule to the household's cash flow.

1.4 Structure of the Paper

Following this Executive Summary, this paper is organised into 6 other chapters. The second chapter introduces the research partner, Pulse, and describes the three research methods used in this study. Chapter 3 presents an analytical framework for risks and coping strategies, illustrating the potential role for insurance. The fourth chapter presents data on the economic stresses to which low-income households are exposed. Chapter 5 analyses the coping strategies used by respondents with a focus on the role of social, physical and financial assets in risk management. By combining the evidence on risks and coping strategies, the sixth chapter tries to answer the question, is there a demand for microinsurance? The conclusion highlights the implications for microfinance institutions that might be interested in developing risk-managing financial services and it identifies a series of unanswered questions.

CHAPTER 2: RESEARCH METHODOLOGY

Access to microcredit to support income-generating activities only partially addresses the needs of the poor. Those who use small loans often manage to increase both their business income and asset base. Despite access to microenterprise loans, however, low-income households remain vulnerable. Even the most successful microenterprise client can easily slide back into poverty when struck by a crisis.

Poor households need a wide range of financial services that extend beyond accessing capital to invest in productive enterprises. To achieve sustainable poverty alleviation, poor households require financial services that allow them to manage risks. With this recognition, this research was designed to provide insights into issues surrounding the poor's management of risks, in particular to understand the potential demand for risk-managing financial services, with an emphasis on insurance.

This research was intended to answer the following questions:

- To what economic stresses are low-income households and businesses most vulnerable?
- What coping mechanisms do low-income households use to alleviate the impact of economic stresses?
- How do these views vary across demographic variables, such as gender, income, and level of education?
- What are the strengths and limitations of the prevailing coping mechanisms?
- Is there a potential demand for insurance?
- What are implications for MFIs that want to develop risk-managing financial products?

2.1 Research Partner

As one of Zambia's oldest MFIs, Pulse has provided microloans to poor microentrepreneurs in high-density, low-income compounds of Lusaka since 1995. Initially launched by CARE International with financial support from the UK Department for International Development (DFID), Pulse is now an independent MFI known as Pulse Holdings Limited. At the time of sampling, that is, May 2001, Pulse had 1879 active clients and an average loan size of ZMK 380,000 (US$100).

Pulse's primary intervention is the provision of microcredit through solidarity groups (see Table 1 for details), although loan officers do provide some business skills training during group meetings.

Table 1 Pulse's Microenterprise Loan Product

Loan size	Loan cycle I- US$23–80 Subsequent loan cycles- the loan size depends on the client's repayment performance and business growth. However the maximum repeat loan a client can get is 150 percent of the previous loan.	
Interest rate	55% per annum	
Administration fees	15% per annum	
Repayment intervals	Depends on loan size, loan cycle and loan term:	
	<u>Loan term</u>	<u>Repayment interval</u>
	12 –24 weeks	Weekly
	25- 52 weeks	Weekly or bi-weekly
	> 52 weeks	Weekly, bi-weekly or monthly

Besides the group guarantee, Pulse's lending methodology requires that clients deposit 20 percent of the initial loan amount as collateral known as the loan "insurance" fund (LIF). In addition to this upfront deposit, clients add to their LIF when they make each loan repayment. Pulse currently pays 6 percent interest on LIF balances. Clients can only access LIF plus accrued interest after all the borrowers in a group have completed their loan repayments. In case of default, members are allowed to liquidate the group, which entails loss of part of their LIF since it is forfeited to clear loan balances of defaulting borrowers.

All Pulse clients are also registered on a mandatory Credit Life Insurance Policy run by a local insurance firm, Madison Insurance Company. This group policy covers the outstanding balance of the loan in the case of death by illness or accident, as well as individual loan repayments for medically certified illness exceeding 14 days. More details of this policy are provided in Chapter 5.

Pulse's clients were chosen for this research project for three main reasons:

1. Pulse's clientele include persons from a range of income levels—from extreme poor to not so poor—as well as a diversity of education levels and a good gender balance, so it would be possible to compare the results across several dependent variables.
2. These persons all have access to credit (Pulse loans), savings (LIF) and insurance (credit-life), which may allow some insights into how these three services might be used for risk managing purposes.
3. Pulse was interested in the results of this research because the organisation would like to improve its products to better suit its clients needs, so the research has a practical spin-off potential.

The research was conducted in the following peri-urban areas of Lusaka: Mtendere, Kaunda Square, Chilenje, George, Madevu, Chawama and Kanyama.

2.2 Research Methods, Key Variables and Sampling

The research involved both qualitative and quantitative methods, including unstructured interviews, focus group discussions (FGDs), and structured interviews (see Appendix 3 for the structured interview questionnaire). During FGDs, Participatory Rural Appraisal (PRA) techniques were the main research tools. Table 2 summarises the research methods, outlining the description and objectives of each approach.

Table 2 Research Methods

Description	Objective/Key questions
1) Unstructured Interviews (Personal Histories)	
An interviewer stimulated respondents to discuss and analyse information about their lives and community.	The key issues for this research method were: • To investigate what sort of crises and risks low-income persons face. • To learn how people change their risk coping strategies depending on their life stage. • To learn whether one's economic status has a bearing on the choice of coping mechanism. • To learn what sort of interactions in one's life have an impact on the choice of coping mechanism. • To understand the existing use of insurance as a coping mechanism (if any) and any biases or preconceptions that people have regarding insurance
2) Focus Group Discussion	
This research method made use of group dynamics to elicit responses and capture diverse perceptions from the MFI clients on the core research variables. FGDs involved the following PRA techniques: • Preference Ranking • Matrix Ranking • Problem Tree • Seasonality Calendars • Trend Analysis	The main objective of this research method was to collect information from participants in groups on the following: • Common economic stresses • Common coping strategies • Factors that might determine the choices of coping mechanisms • Knowledge and experience (if any) of insurance • Household expenditures
3) Structured Interviews	
A structured questionnaire provided quantitative data from MFI and non-MFI clients. The tool was a mixture of close and open-ended questions	Same information as collected through FGDs.

In addition, key informant interviews were conducted with managers from Pulse, CETZAM (another Zambian MFI), and an insurance company to learn about their experiences with insurance for the low-income market.[3]

[3] See Appendix 2 for a description of CETZAM's funeral insurance scheme.

2.2.1 PRA Tools

The five PRA tools used in the focus groups were chosen because of their advantages in collecting the desired information, as summarised below.

Preference ranking is a quick method to identify and prioritise the preferences of a group/or groups. This tool makes it possible to consult many people in a short period of time, but it does not provide much information on reasons backing the preferences. This technique was used to determine the major risks and economic stresses faced by low-income households.

Matrix ranking is useful to understand the reasons behind an answer, especially when there are many reasons for such a choice. Although sometimes too detailed, this technique allows participants to explain preferences and provides insights into the criteria used for making a choice. This tool was used to understand the choice of coping mechanisms.

Problem trees are useful tools in analysing problems and their root causes. When in the hands of a good facilitator, this technique effectively solicits participation from people in understanding problems that confront them. This was used to gain more insights in the risks and economic stresses, as well as the obstacles that low-income households face in saving money.

Seasonality Calendar identifies patterns of activities, problems and opportunities throughout a calendar year. This was useful in the determination of seasonal vulnerability and cash flow bottlenecks.

Trend Analysis is tool for understanding the historic picture of problems or any issue at hand. This tool provided information that confirms results from the personal histories.

2.2.2 Key Variables

These research methodologies were used to examine key variables at the community, household and business levels, as summarised in Table 3.

Many of the independent variables highlighted above, such as types of risks, coping strategies and use of financial services, were compared across a number of dependent variables, including gross household income, asset ownership, marital status, gender, age, main source of income, literacy, and access to social networks.

Both qualitative and quantitative approaches to data analysis were used. SPSS was used for data processing and analysis for data from structured interviews.

Table 3 Key Research Variables

Key Variables	Research Methods
Community Level	
• Existing formal and informal savings, credit and insurance practices • Financial services highly valued • Activities of moneylenders, including why people borrow and the terms and conditions of the loan • Perceived business risks in the communities • Informal consultations regarding economic stresses and business risks • Details of some economic stresses including costs involved (such as medical fees, funeral costs, rent, etc.)	FGDs with MFI clients Structured Questionnaire
Household level (Client & Non client)	
• Existing informal practices for savings • Common economic stresses experienced • Coping strategies commonly used • Other needs for credit (i.e. other than for business purposes) • Gaps in the existing financial services; other unmet needs	Structured Questionnaire FGDs, Personal History
Business Level	
• Types of common businesses • Cash flow patterns for different types of businesses • Perceived business risks • Coping strategies commonly used	Structured Questionnaire FGDs, Personal History

2.2.3 Sampling

A total of 335 respondents were interviewed in this study, including 200 for structured interviews and 45 for unstructured interviews. The other 90 respondents participated in 12 focus group sessions; the group sizes varied between 5 and 10 participants. The 275 Pulse clients that participated in this research represented roughly 6.8 percent of the total active population at the time, but did not include any former clients.

Table 4 Sample per Research Method

Research Method	Sample size	
	MFI clients	**Non-clients**
Unstructured interviews	45	0
Focus Group Discussions	90	0
Structured interviews	140	60
TOTAL	**275**	**60**

Initially **simple random sampling** was applied on the lists of all active clients of Pulse. However, data collection was slow due to difficulties in finding the sampled clients in their homes or business operational points. With due reference to timeframe for the case study, the research team randomly selected groups and individual microfinance clients based on their availability in regular weekly, bi-weekly and monthly meetings. This approach excluded delinquent clients (who did not come to the meetings) as well as former borrowers (who were not on the list of active clients). These two groups may have a stronger demand for risk-managing financial services than the sample, and the results therefore may underestimate the risks to which low-income households are exposed.

Non-MFI clients were only included in the structured interview sample. Purposive or **non-probability sampling** was applied in identifying non-clients while ensuring that they were microentrepreneurs operating in the same areas as Pulse clients with similar businesses. The gender distribution of Pulse clients was also applied in the sampling of non-clients. Other independent variables for the non-client sample closely parallel the Pulse sample, including the distribution of household income, asset ownership, literacy and education. The similarity of the samples, however, also resulted in similar risk profiles and coping strategies, such that the comparison of clients versus non-clients does not add value to the analysis.

Data was gather by three research assistants who were given three days of training before embarking on interviews and focus group discussions. Their training included an introduction to risk-managing financial services, main research objectives, an in-depth understanding of the research methods (including role play exercises), important notes and reminders on data collection, editing and reporting, and the translation of critical terms.

2.3 Research Challenges and Insights

The experience from this research raises some interesting challenges, including:

Terminology. Despite interviews being conducted in the local language, some respondents had problems understanding some questions. In most cases rephrasing or further explanation (sometimes coupled with examples) was necessary before they could answer the questions.

Organisation of groups. Microentrepreneurs are usually concerned with their day-to-day business operations, so it was not always easy to get them to participate in focus groups. Consequently, some respondents only agreed to attend the FGDs during their lunch break. Refreshments and full lunch meals were provided to keep the respondents active throughout the sessions.

Measurement of occurrence frequency. An attempt was made to capture data through the structured questionnaire on frequency of occurrence for the pronounced risks particularly death, illness and theft for the current year, last year, last 5 years and last 10 years. Most respondents could not give an historical account. During data analysis the period of reference was restricted to current year and previous year. The trend analysis for FGDs provided a useful alternative tool though it does provide the actual frequency. Incidences of death and prolonged illness were easier to capture than incidences of short illness.

Possible bias. The main drawback to conducting research through an MFI is that it has the potential to bias the results—participants may say things that they think the MFI wants to hear because they want to get another loan or better loan conditions. Every effort was made to distance the research from the MFI and to encourage participants to speak freely. For example, the research assistants informed participants that they were working on behalf of an international organisation, not Pulse, as part of a broader study on risks and coping mechanisms.

To compensate for these challenges, significant effort was made to crosscheck information to ensure data integrity. Many research questions were approached from different perspectives, and through different research methodologies, to see if indeed similar results emerged. Where possible, results were also compared to the relevant literature both in Zambia and elsewhere.

Because multiple research methodologies were used, a comparison provides between them some insight into their effectiveness and cost effectiveness. Despite difficulties in gathering people, focus groups seem to be a faster and less expensive research method, both for data collection and analysis. FGDs have an advantage of empowering respondents to freely express themselves and hence providing more in-depth information. While the focus groups generate excellent qualitative information and provide insights into why persons have certain preferences, they are not able to quantify demand very effectively. Consequently, they need to be paired with a quantitative research technique.

CHAPTER 3: FRAMEWORK FOR ANALYSIS

This chapter begins by categorizing the types of risks to which low-income persons or households are exposed. It then discusses the coping mechanisms commonly used to manage risks. Finally, this chapter introduces insurance as a possible coping mechanism and discusses what types of risks it will be appropriate to address.

3.1 Understanding Economic Stresses

Rahman and Hossain (1995) provide a risk framework that considers the likelihood that an economic or social disruption can be anticipated and planned for.[4] They outline three risk categories:

- **Lifecycle Risks** stem from events as marriage and birth, old age, and death, but also involve regular expenditures for food, housing, education and healthcare. These risks are generally predictable, which that makes planning and managing them more feasible. Lifecycle risks can, however, become crises if they are not adequately planned for, if insufficient savings have been accumulated to manage them, or if they occur concurrently with another risk.

- **Structural Risks** are caused by long-term or permanent changes in the national or international economy, as well as by disasters caused by seasonal or weather-related effects. For developing countries like Zambia these include inflation and devaluation, which affect the performance of microenterprises. Drought is also a significant concern in the region, even in urban areas.

- **Crisis Risks** are unexpected shocks to the household that may increase costs, drain resources, and/or disrupt its ability to generate income. These crises may have a sharp single impact (i.e., business theft, livestock disease); they may be recurring (i.e., ongoing health problems); or they may be permanent (i.e., a disabling injury, unexpected death of a wage earner).

[4] Cited in Mutesasira 1999.

With their focus on microentrepreneurs, Sebstad and Cohen (2000) add two other risks to this framework: **business risks** and **borrowing risks**. While many of the crisis and structural risks mentioned above can have dire effects on one's business, the authors include business risks to the framework to highlight vulnerabilities that are specific to microenterprises, such as price fluctuations and increasing competition. The risk of taking a loan is also added to illustrate that microenterprise loans can increase or reduce vulnerability depending on the cash flow and economic health of the household.

This paper uses a modified version of Sebstad and Cohen's risk framework, with an emphasis on the three risks—lifecycle, crisis and business—for which risk-managing financial services might serve as effective coping strategies.

Since many lifecycle events are not risks per se, this study uses the term **economic stresses** to reflect household cash flow strains, both expected and unexpected. This magnifying glass on the household's cash flow helps to identify threats that either cause expenses to increase or income to decrease—either way creating a cash flow gap that needs to be filled in some way, possibly through risk-managing financial services.

While these economic stresses are potential threats to all people, rich or poor, low-income households are particularly vulnerable for a number of reasons. By definition, poor people have a much smaller asset cushion; so small shocks or stresses tend to have pronounced effects. The environments in which low-income persons live and work tend to be riskier than wealthier people, with a greater likelihood of illnesses, accidents, thefts and fires. In addition, low-income households may not have access to some efficient or effective risk management strategies.

Besides income level, **gender** is the other primary dependent variable that may affect the types of risks to which one is exposed. It is expected that women-headed households be among the most vulnerable.

Another aspect of economic stress that is more pronounced in low-income households is one's **psychological vulnerability**, the worrying caused by cash flow uncertainties. This aspect is particularly important because it may prevent someone from making business investments or taking business risks that could reduce the household's poverty level. If psychological vulnerability could be alleviated, then the entrepreneur might become less risk-averse and experience greater returns.

3.2 Understanding Coping Mechanisms

Economic stresses, both actual and psychological, combine to create a complex risk environment that requires a range of coping strategies. These strategies can be grouped into risk reduction strategies and risk management strategies.

Risk reduction strategies decrease the household's exposure to risk or reduce the loss that might result. Many microentrepreneurs, for example, get involved in multiple business activities to reduce the impact that a downturn in a particular business sector might have on household income. Similarly, moving the household or business to a setting that is less prone to floods or fires is a risk reduction strategy. Risk reduction strategies can be quite expensive; Matin et al (1999) estimate that households in rural India may sacrifice 25 percent of their income to reduce exposure to risks (cited in Brown and Churchill 1999).

Risk management strategies include investments in physical, social and financial assets to reduce the impact after a loss has occurred. For these strategies to be effective investments need to be made *before* risks and other economic stresses occur. Then during a cash flow crisis, the household is able to, for example, sell off jewellery, call on social obligations or withdraw from a savings account. With serious crises (or even moderate crises for poorer households), one particular coping strategy may be insufficient, and therefore the household has to piece together a melange of approaches.

This research focuses on risk management strategies, since that is where the provision of financial services might fit in. Some risk management strategies can have adverse effects, for example households may reduce food consumption to lower expenses, pull children out of school to work in the family enterprise, or sell productive assets. This research attempts to analyse the strengths and weakness of different coping strategies to determine where there might be a role for provision of financial risk-managing financial services. It is possible that the availability of appropriate financial services could replace some of the less desirable risk management strategies.

3.3 Potential Role for Insurance

Wealthy people or people in wealthy countries commonly purchase insurance to help manage risks. An important aspect of this research is to determine if low-income people in developing countries believe that it could be an appropriate tool for them as well. To assess the potential demand for insurance, this study analyses the level of understanding of insurance by low-income persons, perceptions of insurance, and inquiries about affordability and applicability. Through the findings on risks and coping mechanisms, this research also seeks to establish the potential types of insurance that would be demanded by low-income households.

When considering the potential role for insurance, it is necessary to see how it might fit in vis-à-vis savings and credit. Figure 1 depicts areas that insurance products can best address based on two variables:

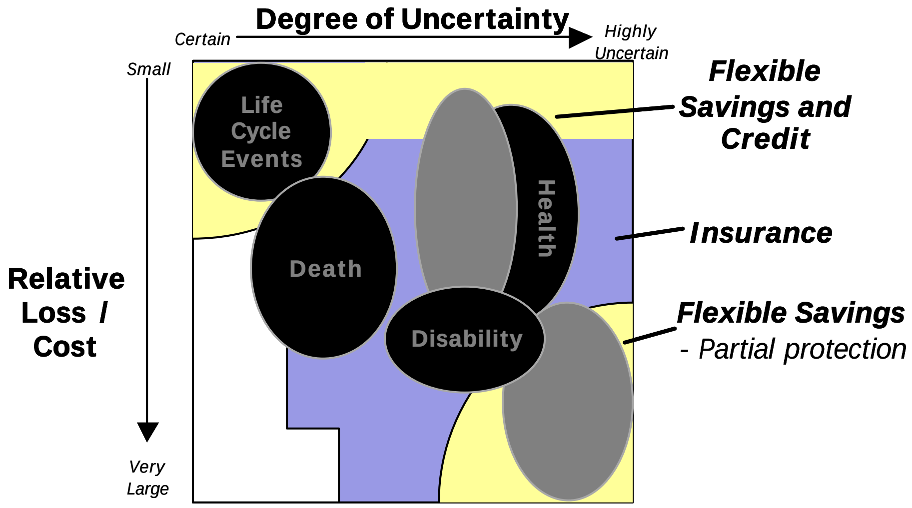
1) The degree of uncertainty about whether, when and how often a loss will occur.
2) The cost of the potential loss

Based on this perspective, there are three areas where insurance is not an effective response: 1) for losses that are very certain to occur; 2) for small losses because administrative and transaction costs would make the product too expensive; 3) for covariant risks which affect many people in the risk pool at the same time, such as in the case of a natural disaster (unless the insurer has reinsurance). It is also not possible to insure events over which one has control, such as a wedding or one's education.

From this assessment, one can conclude that normal life cycle events are best addressed through savings and perhaps loan products. Even unplanned but relatively inexpensive losses can be served through savings and flexible credit. Insurance can provide more complete coverage for unpredictable risks that result in larger losses. Since they fulfil different purposes, an MFI can view these three as complementary services: insurance for the few risks that are insurable (e.g., those that are easily observable and idiosyncratic);

savings for persons with a little bit of extra money and the foresight to plan ahead; and emergency loans to reduce the need to sell off assets and allow people to borrow against future earnings.

Figure 1 Credit, Savings or Insurance?



Brown and Churchill (1999).

CHAPTER 4: ECONOMIC STRESSES

This chapter attempts to answer the question, "To which economic stresses are the poor most vulnerable." The degree of vulnerability depends on several variables, including the frequency of occurrence, the associated costs (or loss of income), and the duration or permanence of the effect.

The first section adopts a direct approach by asking respondents to rank or rate the economic stresses that they have experienced. The second section uses a more indirect approach by trying to gain insights about people's vulnerabilities by determining how crises affect their loan use and their ability to repay. The results from both the direct and indirect approaches reinforce each other, determining that death and illness are the primary concerns. The third section considers the types of business risks to which respondents are exposed.

4.1 Ranking of Economic Stresses

The three research methodologies—unstructured interviews, focus group discussions and structured interviews—reached similar conclusions about the respondents' vulnerabilities, all identifying death or illness as the top two concerns. Most participants reckoned that the economic and social costs associated with these crises were enormous, often with a long lasting effect on household welfare.

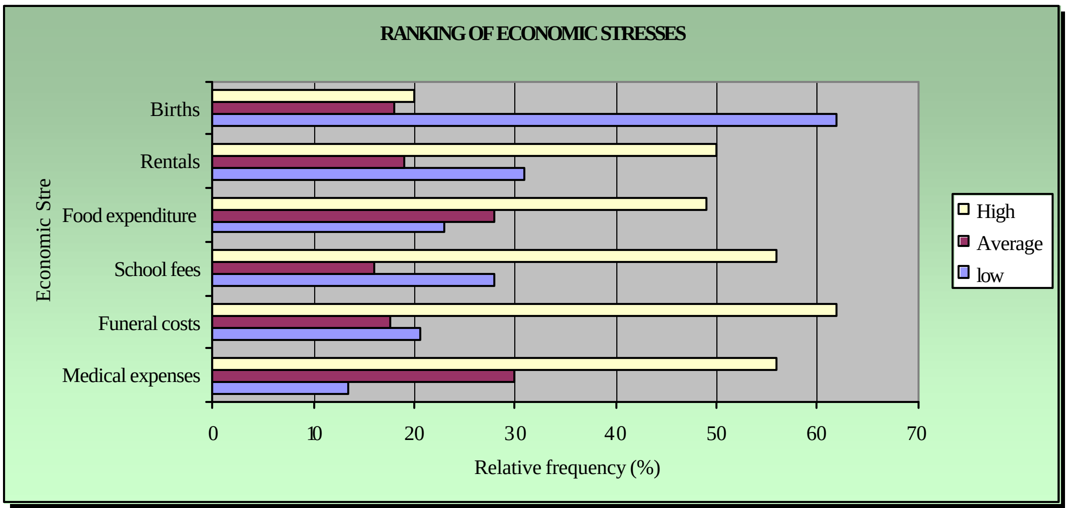
In focus groups, participants were asked to identify their major economic stresses and then to rank them based on the economic effect that they have on the household. As shown in Table 5, death and illness were the only two stresses identified by all twelve focus groups; five groups ranked death as the number one risk, while illness received two top rankings and six second rankings. Interestingly, school fees and food consumption also emerged as significant economic stresses, receiving three and two top rankings respectively. Rent was also highly pronounced by some FGD participants, but other bills, like loan repayments and electricity, were not highlighted. For lifecycle risks only births were mentioned and were not much of a concern.

Table 5 PRA Preference Ranking for Economic Stresses

Econo mic	No. of scores by groups in							
	A	B	C	D	E	F	G	H
Crisis/Emergency risks								
1. Illness	2	6	3	1				
2. Death	5	1	3	1	2			
3. Theft at the house		1	1					
Lifecycle								
4. Births					2	2	2	
General vulnerabilities								
5. School Fees and related expenses	3	2	1	4				
6. Food	2	4	1		1			
7. Rent	1	2		2	4	1		
8. Unexpected Visitors (see Box 1)			2	2	1			
9. Too many Dependents		1	1	1	1	2		
10. Electricity bills		1						
11. Financial request from relatives			1					
12. Debt								1

Findings from the other research tools confirmed the results from FGDs regarding economic stresses. In the structured interviews respondents ranked economic stresses using a yardstick running from 1–5 interpreted as very low, low, average, high, and very high. Figure 2 summaries the re-categorised ranking with 3 scales, Low, Average and High.

Figure 2 Structured Interview Ranking for Economic Stresses



In none of the research methods did respondents express concern for covariant risks such as floods, earthquakes, drought, fires, war, or civil strife, largely because these types of disasters are not common in Zambia. Recent droughts have had serious repercussions on food shortages, but the impact is felt more directly in rural areas. In Lusaka, the effect of the droughts is mainly in form of price hikes. Indeed, expenditure on food was identified as a serious economic stress.

The rest of this section analyses in more detail these two major concerns, death and illness, as well as the surprising finding that general vulnerabilities—namely school fees, food expenditure and rent—are of almost an equal concern. This section also considers the seasonality of these stresses.

Box 1 The Economic Stress of Unexpected Visitors

Five of the focus groups identified unexpected visitors as an economic stress. "They just come and disturb your budget," was a common sentiment expressed by the participants. Unexpected visitors usually refer to relatives from rural areas that come to Lusaka on money-seeking missions. The prevalence of this phenomenon is largely due to culturally factors:

- *Family definition*. The family in the Zambian context, and in most African countries, goes well beyond the nuclear level. While there is no firm boundary, the extended family includes cousins and even second cousins, as well as multiple generations. One has a moral obligation to support one's extended family.
- *Cultural mores*. It is culturally inappropriate to expect an appointment before a visit. Persons who insist on arranged visits are considered unreasonable and unhelpful.
- *Effect of poverty*. Poverty, exacerbated by AIDS and recent droughts, contributes to the increasing flow of unexpected visitors. Persons who are really struggling to survive look to family members for financial support. Although visiting a relative or seeking financial assistance is a cultural consideration and not an economic one, it does cause an unexpected economic stress.

The majority of those who seek assistance are helped, partly out of obligation and partly just to get rid of them. While one might want to help, it may be beyond one's means. Some persons even borrow money so that they can help their relatives; "I had to borrow from friends, otherwise they would not have gone." Some people have reservations about who they help; "I only help those with genuine problems."

4.1.1 Death

Death emerged as the top economic stress, largely because it attacks low-income households from several different angles. The permance of death means that it causes a powerful emotional stress on top of the economic burden. The most expensive death-related loss is the premature or unexpected death of a breadwinner; in addition to having to pay for the funeral expenses, the household also has to find a way to replace the lost income. The second tier of expenses come from the loss of a child, who will not be able to contribute to the household income, followed by the death of an aged household member.

In Zambia, expenses for death extend beyond the household. Focus group discussions revealed that the death of a relative who does not live in the household also requires a significant financial outlay; the same is sometimes true with the death of neighbours and close friends. The study further revealed that if the entire extended family relies on one family member, perhaps because she is the only one with a regular income, that person is primarily responsible for meeting funeral costs in the extended family even when the funeral is not held at her home (see Box 2).

Box 2 "The Death of Close Relatives and School Fees are the Main Problems."

Forty-two year old Mary N. has 7 children who all living with her and her husband. She has a primary school education and is semi-literate, but she wants more for her children. She has lived in the low-income community, Kaunda Square, for 11 years. As the household's primary income earner, she has been running a small business, selling second hand clothes ("*salaula*") for 18 years.

According to Mary, her household's economic condition was fine until 1996. Since then, her business has experienced a significant decrease in sales. The poor business performance is partly attributable to a series of economic stresses, especially the death of relatives and the costs of putting so many children through school.

Year	Economic Stress	Coping Mechanism
2000	Death of an uncle	Used business capital, she spent about ZMK500,000
2000	School fees	Savings from business profits
1999	Death of an uncle	Used business capital. She spent about ZMK500,000
1998	School fees	Used business capital, got a loan from MFI.
1996	School fees	Got a loan from MFI

Mary used to belong to a *chilimba* group, but stopped when the business performance declined. Currently she contributes ZMK10,000 (US$2.70) per month to a market funeral fund, which will pay for a coffin if a member of her household dies. In some instances, the fund also provides assistance when members are sick for a long time.

In the past 18 months, the 200 structured interview respondents had experienced 65 deaths of household members, or roughly one out of every three households. Further the respondents experienced 885 deaths of close relatives (not living in the household); therefore households averaged about 4 deaths of close relatives in 1½ years. Funeral costs typically range from US$132 to158, as summarised in Box 3. In addition, low-income households indicated that they could have spent roughly ZMK1,500,000 (US$395) on the funeral if they had more resources.

Box 3 Funeral costs

Traditionally for Zambian funerals, friends, relatives, neighbours and church members gather and spend 2 to 3 nights at the home of the deceased. The men usually spend the nights in the backyard sitting around a fire to keep warm. The next of kin is expected to feed the mourners.

Based on the focus group discussions, funeral costs average US$132 to $158. This includes $66 for the coffin, between $26 and $53 for food, and $13 for firewood. In addition, an average of $26 is needed for transportation to take mourners to and from the burial site and to deliver the body of the deceased to cemetery.

4.1.2 Illness

In the structured interviews, respondents were asked to indicate the number of times their households had experienced short and long illness. Prevalence of short illness was difficult for most respondents to remember. The results indicated in last 1½ years the 200 respondents had experienced an estimated 1364 short illness and 164 long illness, which roughly equates to 7 short and one long per household during the 18 month period.

In the focus groups, trend analysis was used to gauge whether vulnerability to these main risks (as well as theft) has changed over time. The results, presented in Table 6, show that participants perceive that death and illness are becoming more prevalent, while theft has not changed much. National statistics indicate that HIV/AIDS is an explanation for this perspective; over time the HIV/AIDS has increased the prevalence of death and sickness. Further, statistics also indicate high prevalence of HIV/AIDS in peri-urban areas. The 1998 figures on HIV/AIDS prevalence indicated that infections occurred in 27.3 percent of the persons between 15 and 49 years in Lusaka (Ministry of Health/Central Board of Health, Sept. 1999).

Table 6 Trend Analysis of Key Risks

Crisis Risk	Early80s	Late 80s	Early 90s	Late 90s
Death	*	**	***	****
Sickness	*	**	****	****
Theft at household level	*	*	**	**
Theft at business level	*	*	*	*

Key: * Minimum Prevalence ** Somewhat Prevalent *** Prevalent **** Very Prevalence

The month's household expenditure information solicited from the structured interviews indicated that the average household spent ZMK32,622 (US$8.60) on health expenses, which constituted 6 percent of monthly household expenditure.[5] Most of the amounts given were for expenditure on medicines either with or without prescriptions from the doctor—indeed, the cost of prescribed medications was a major complaint in the FGDs. In government clinics and hospitals where low-income households usually access medical services, inexpensive health care is available for a registration fee of US$0.66 and monthly contribution of US$0.40; children under 5 years old do not pay any medical charges.

Though the cheapest source of health care, government clinics and hospitals are perceived as having poor quality services. They are usually crowded and associated of shortages of medicine. In contrast, one study revealed that 70 percent of respondents considered the quality of services they got from private clinics and hospitals to be excellent (Mwikisa et al 1996).[6] However the charges in these hospitals are not affordable for most poor people. "In as much as I would like to go to a better clinic, I can't afford it," was a common sentiment expressed during FGDs and unstructured interviews. Only a few respondents, particularly those in the better-off category, mentioned that they go to private clinics. These households usually included persons who were well educated and/or had a salaried job. In some instances access to private clinics was part of the company's employee medical scheme.

[5] In 1998 the Central Statistics Office published a study showing that Zambian households spend on average K3900 (which was then approximately US$2) per month on health related goods and services, which accounted for 2 percent of the household's total income.

[6] The 1996 Household Health Expenditure Survey.

4.1.3 General Vulnerabilities

One of the more striking findings from the rankings in Table 5 and Figure 2 is that economic stresses associated with daily life—such as buying food, paying rent and sending children to school—were nearly as pressing for respondents as the shocks associated with death and illness. The FGDs and the unstructured interviews revealed that these concerns are severe in part because of their regularity—expenditure on food (normally 36 to 59 percent of household income) is a daily issue and rent monthly. This latter anxiety is particularly felt by the 51 percent of the respondents who do not own their homes and pay between $19 and $54 per month—on average 46 percent of their household income.[7]

These stresses are of particular concern in part because vulnerability includes the frequency of occurrence. For low-income households, habitual cash flow pressures, and the resulting psychological vulnerability, elevate these concerns to nearly the same level as the more significant and potentially more expensive shocks associated with illness and death. It is interesting, however, that similar worries are not applicable to other bills, such as paying electricity and making debt payments. Respondents appear to be much more concerned about basic needs, putting food on the table and maintaining a roof over their heads, than repaying their loans—a sentiment that Pulse has certainly experienced first hand.

Education-related expenses are critical in part because of the high value that the respondents place on children's education. The affordability of school fees has two other elements. Due to a budget reorganisation in the early 1990s, schools began asking parents to assume a greater share of expenses through higher school fees. The cost of education has a significant bearing on the school attendance of children from lower-income families, as shown in Table 7. In addition, improvements in health care and reductions in child mortality have resulted in larger households; more children mean more school fees, and greater economic stress (see Box 2). The increasing numbers of AIDS orphans exacerbates the household size issue. Indeed, half of the focus groups identified "Too Many Dependents" as an economic stress.

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[7] Not only do persons who own their homes not have to worry about paying rent, but many (37 percent) also use their homes to generate additional regular income by renting out rooms. An additional 10 percent of homeowners owned more than one house and rented out the second one.

Table 7 Poverty Level and School Attendance

Poverty Level	Age Group		
	7-13	14-18	19-22
Extremely poor	61%	49%	15%
Moderately poor	76%	59%	21%
Not poor	82%	66%	20%

Source: Living Conditions, Central Statistics Office, 1998.

4.1.4 Seasonality Analysis

Another explanation for the burden of school fees emerges from a seasonality analysis comparing business performance and household expenditure. The results for manufacturers (Figure 3) and retailers (Figure 4) both show a significant spike in expenses at the beginning of the calendar year, particularly January, when households pay school fees and other education costs such as school uniforms. Yet in the aftermath of the December holidays, January is the worst time for business performance, so the cash flow gap is most severe (expenses are also high in May and September because some school fees are paid at the beginning of each term). The cash flow crisis is further aggravated because most commodity prices are revised upwards at the beginning of the year.

Figure 3 Seasonality Analysis: Cash Flow for Manufacturers

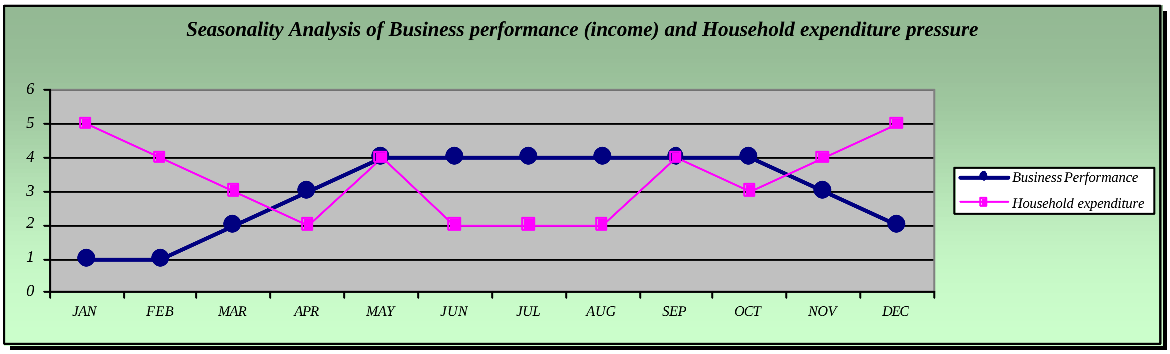
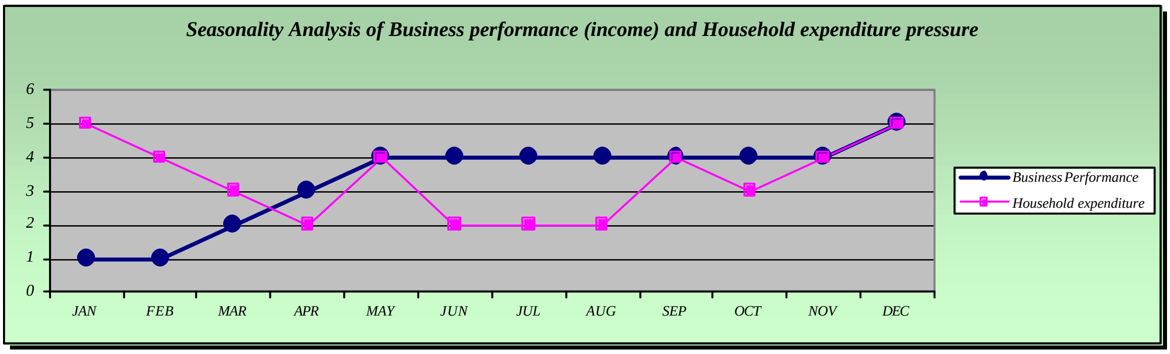


Figure 4 Seasonality Analysis: Cash Flow for Retailers



The major difference in cash flow between retailers and manufacturers occurs at the end of the year. While retailers enjoy high returns during the Christmas season, this is not the case with manufacturers. Because of seasonal variations, many manufacturers engage in a range of business lines that enable them to maintain a smoother cash flow, as shown in Box 4.

Box 4 Seasonal Diversification

John B. (43) runs a carpentry workshop in Lusaka's Kaunda Square compound and specialises in making household furniture. During the rainy season his sales are very low. "I normally start selling groceries as a temporary measure so that I can make some income to sustain my business and household." When asked whether the selling of groceries stops as soon as sales on furniture pick up, Banda indicated that it does not stop completely but most of the resources are shifted to furniture making since that is his main business and according to him the most profitable.

The retailers' advantage at Christmas could be even higher if there was a greater investment in infrastructure. The summer in Zambia, particularly December, is characterised by heavy rains. Focus group participants indicated experiencing difficulties in selling their goods due to a lack of proper market structures; most marketplaces are usually very muddy, which creates a deterrent for their customers.

Box 5 Weddings and Births: Not Really an Economic Stress!

Respondents did not express significant concerns regarding childbirth or weddings as economic stresses.

One explanation for **births** is that many low-income women deliver in government clinics, which charge less than US$3. Also the pregnancy period is long enough to facilitate preparation for the other related costs without disturbing the general household cash flow. It was common to hear the respondents say, "It is something you expect and hence you can easily prepare for it, unlike death or sickness which come when you least expect them." Many indicated that during pregnancy they are able to buy all the requirements and save some money (usually in house) for the travel expenses to and from the hospital when the birth is due. For the real poor, they usually knit some of the baby's clothes for themselves. It was also not uncommon for many to reuse clothes from preceding births especially for children of the same sex.

Maxwell N., aged 28, is married with one child, who was born in 2000. "I kept on saving some money at home in a secret place in preparation for the birth of this child," he said.

For many respondents, **wedding** ceremonies are uncommon; many indicated that weddings are for the well-to-do. Some indicated that these are costs one can easily avoid. They usually marry in simple, traditional ways, which do not require a lot of money. Some men however identified the bride price (known as *lobola*) as major expense and they usually have to save or pay in instalments.

Maxwell got married in 1997. According to him, prior to his marriage, he started saving from his profits in order to pay lobola. Bride prices in the compounds typically range from ZMK500,000 to 1,000,000, but it may be less in poorer households.

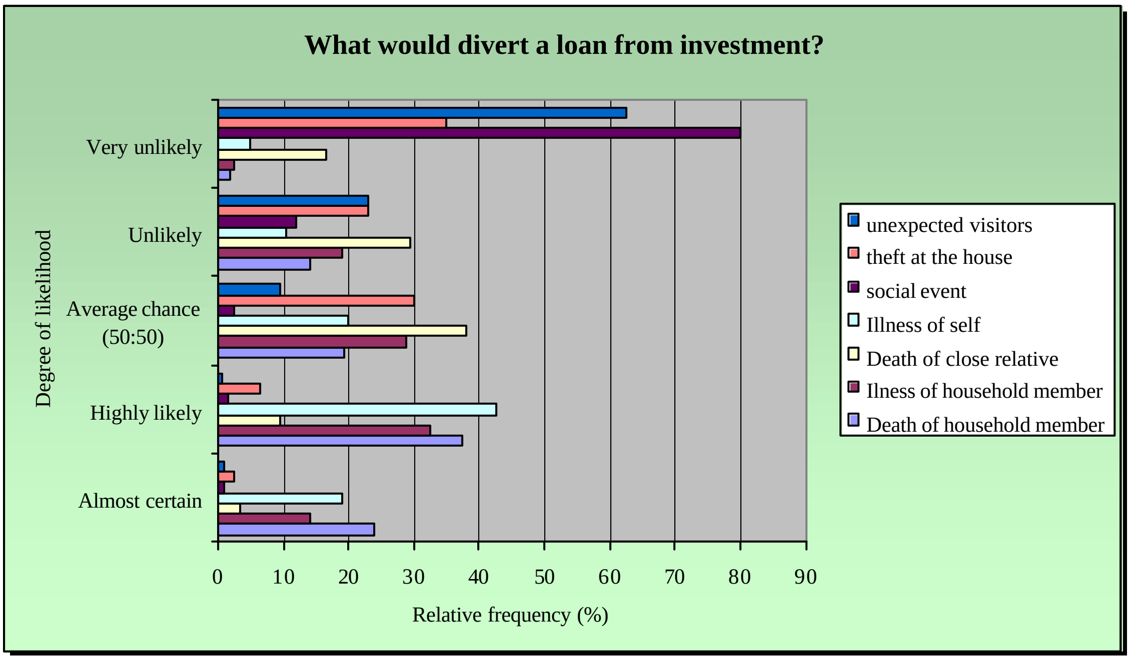
4.2 Client Risks and the MFI

To confirm the above findings, this research also employed an indirect approach to ranking economic stresses by determining what reasons microentrepreneurs might divert their loans away from their businesses, as well as establishing the causes of loan repayment problems. This line of questioning corroborated the concerns regarding illness and death.

Microfinance institutions often express concern about clients diverting loan funds from the intended use. If clients do not invest loans in their businesses, and therefore generate a return on their investment, conventional logic assumes that clients will have difficulty repaying their loans. As another method of attempting to prioritise economic stresses, this research inquired as to what might tempt clients to divert loan funds from their intended use. During the structured interviews, respondents indicated the likelihood for diversion of loan funds to solve expenditure pressures arising from occurrence of a risk event.

The results (see Figure 5) show that the top two reasons for diverting loan funds would be to pay for the funeral expenses of a household member and in the event of illness to oneself. These results suggest that, if MFIs could find ways of helping clients to cope with these risks, the organisations might experience corresponding improvements to their business loan portfolio. Pulse has certainly been motivated by these findings, as described in Box 6.

Figure 5 What Would Divert Enterprise Loans Away from the Business?



Box 6 Pulse's Experience with Risk Identification

During its six years experience in providing microcredit, Pulse has made significant efforts to understand the risks that surround its clients. The organisation has undertaken or contributed to a number of impact assessments and case studies designed to understand the factors that undermine loan repayment and hinder impact. Pulse conducted a survey to explore the causes of loan default (Manje 2000), which identified the following factors:[5]

Default due to Personal and Household Factors

Issues	Percentage of Respondents
Death	88
Illness	72
School Fees	65
Spouse's unemployment	45

Default due to Business Factors

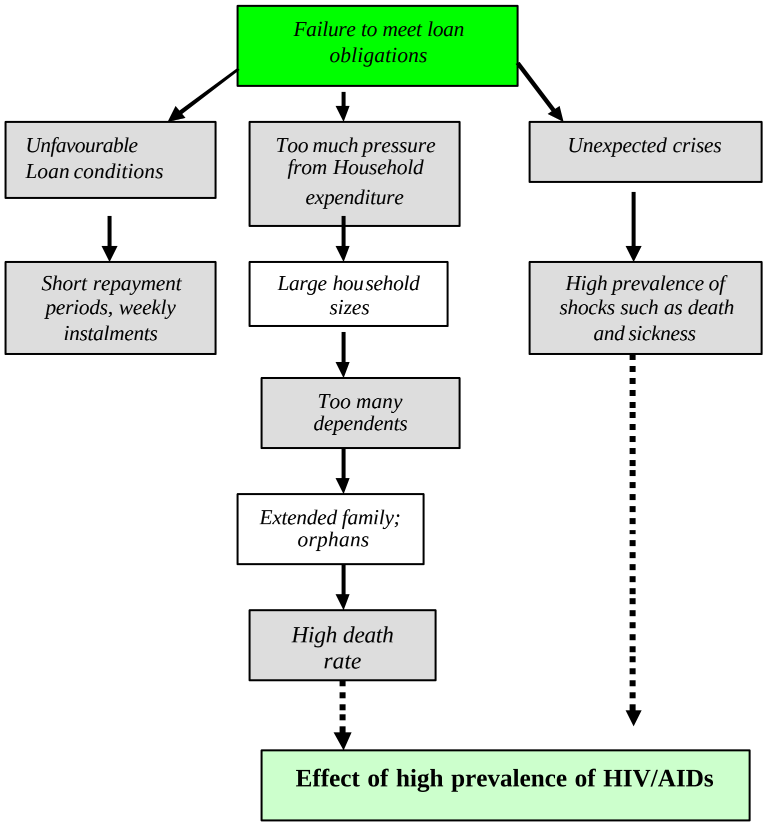
Issues	Percentage of Respondents
Poor payments from credit sales	43
Low business performance	76
Deficiency in marketing skills	41
Competition from illegal retailer	37

Of these, deaths were highlighted as a number one economic shock because it drains significant resources from the business. The clients interviewed in the study also indicated the chance of using business capital and diverting loan funds are high when a household is struck by a shock such as death.

In response to this finding, Pulse introduced a Borrowers Protection Fund (BPF) in 2000 to provide credit life insurance. For a premium of 1 to 3 percent of the loan size, the BPF would pay off outstanding loans in the event of death. In February 2001, Pulse replaced the BPF by partnering with Madison Insurance Company to offer a Credit Life Assurance Scheme. In addition to credit life, this mandatory scheme also covers default resulting from prolonged sickness. As of October 2001, 2543 clients were registered on the scheme and only 6 claims were made, with an average payout of US$96. Pulse's insurance scheme is discussed more in Chapter 5.

Another way of ascertaining the vulnerabilities of low-income households is to determine which factors affect their ability to meet loan obligations. During FGDs, a PRA problem tree was used to gain insight into these factors. The 12 FGDs generally reached similar conclusions, resulting in problem trees like the one depicted in Figure 6.

Figure 6 Problem Tree Factors that Account for Failure to meet Loan Obligations



Key: Highly pronounced ▢ Key problem ▢

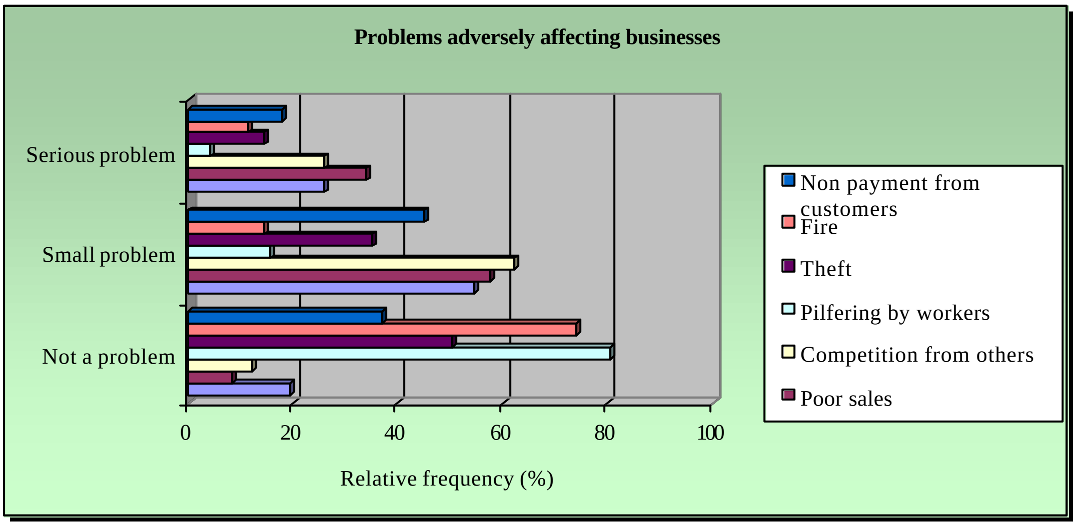
Not an outcome from this case study but a common finding from previous studies in Zambia including ones on Pulse ▢

→ From the FGDs ⇢ Inference based on past studies

4.3 Business Risks

To capture potential business risks, respondents in structured interviews were asked which problems adversely affect their businesses. The most serious issues, highlighted in Figure 7, were **poor sales, competition** and **inadequate working capital**; theft and fire were not of great concern.

Figure 7 Problems Adversely Affecting Businesses



During FGDs, a SWOT analysis was used to capture business risks (threats being equivalent to risks). As shown in Table 8, the focus group responses were similar to the structured interview results. In both cases, respondents focused primarily on skill-related issues—such as competition, low demand and poor sales—rather than risk-related issues. These findings suggest that business skills training would be a much higher priority than business-specific insurance products.

Although the SWOT analysis was intended to focus on business risks, the focus groups decided that the health of the entrepreneur represented a significant threat to the business. Most respondents were sole entrepreneurs. When they are sick, business performance is adversely affected because no one can take over for them. Some of them have taken a precautionary measure of training their children on how to run the business. The majority (75 percent) of the entrepreneurs interviewed in this study indicated some of involvement of household labour in the running of their businesses.

Table 8 SWOT Analysis to Determine Business Risks

Strengths	Weaknesses	Opportunities	Threats
• Access to loans • Availability • High demand (good sales) • Sound business skills	• **Lack of business skills** • Lack of financial discipline • Being a Sole entrepreneur	• Good location • High demand • Savings in a *chilimba* • Access to loans	• **Low demand** • Theft • **Sickness** • **Increasing competition**

Note: The most prominent factors are indicated in bold

In the structured interviews, respondents were asked what they worried most about regarding their business performance. In a follow up question, they were asked if they worried about these issues rarely, often or very often. As shown in Table 9, respondents did not limit their concerns to business issues; illness and death were frequently mentioned illustrating that the integrated nature of the business and household.

In direct contrast to the results above, theft was mentioned most frequently and with the greatest intensity. It is possible that this finding illustrates an important distinction between practical and psychological vulnerabilities. This line of questioning should certainly be replicated to see if these surprising results can be duplicated.

Table 9 What Worries Microentrepreneurs the Most?

RISK	Frequency of Worry (% of respondents)			No. of Respondents	% of Total sample
	Rarely	Often	Very Often		
Sickness	9	85	6	107	54
Deaths	22	71	7	68	34
Theft	20	69	11	152	76
Fire	26	68	6	72	36
Poor sales	7	84	9	44	22
Non-payment from credit sales	10	80	10	20	10

CHAPTER 5: COPING MECHANISMS

Low-income households use a variety of coping strategies to alleviate the impact of economic stresses. These approaches can be categorised into risk reduction and risk management strategies. This chapter first considers the prevalence of the various strategies in each category and then analyses in more detail the role of social, physical and financial assets in risk management.

5.1 Risk Reduction Strategies

Low-income households are very aware of their vulnerability or exposure to risks. Consequently most low-income households employ some precautionary measures that enable them to cope more easily when struck by a crisis. The three approaches most commonly employed by the respondents were to **increase their income, diversify their income sources, and build their asset base.** These strategies were accomplished by joining the MFI, participating in *chilimbas*, managing multiple business lines, and through savings accumulation.

Pulse clients clearly indicated that their decision to **join the MFI** was not only a way to improve their livelihood, but also to enhance their ability to cope with economic stresses. Many strongly felt they were better off than before, which reflects a positive impact of microenterprise loans, although a small number were actually worse off. The link between improved business and reduced vulnerability was not extremely strong. Despite accessing loans, 88 percent of the clients still struggle to cope with crises, especially shocks associated with death and illness.

Besides Pulse's microenterprise loans, some respondents (mostly women) were also members of *chilimba* groups or savings clubs. Their primary motivation for participation was to gain access to a large sum of money for an investment to **increase their income and broaden their asset base**.

Seventy percent of the structured interview respondents indicated that they kept some **savings at home** with and average balance of ZMK 50,000 (US$13). During FGDs and unstructured interviews, some respondents indicated that they try to save systematically on daily basis by putting a little bit of money each day in a secret place; others are less disciplined, but try to ensure that there is a small amount of money for emergency purposes. Low-income households are well aware of the need for saving for precautionary purchases, but they do not typically access formal savings facilities—only 17.5 percent of the respondents had bank accounts.

Diversifying income sources was another common precautionary strategy. The seasonality analysis showed that over half of low-income households engage in multiple business activities to smooth seasonal fluctuations in income. At Christmas time, for example, most employers pay bonuses, so the demand for goods, especially food and clothes, increases significantly as people have extra cash to celebrate the holidays. At this time, some entrepreneurs add one or more lines of business to ensure that they take of advantage of this high demand. For some, this diversification becomes permanent and it eases cash flow problems when one line is not doing well. It is common to find a household running several businesses that have varying levels of cash flow at different times of the year. In addition, of the married respondents, 44 percent of the spouses were also running separate small enterprises.[8]

To **improve household health**, some low-income households take precautionary measures such as purchasing and storing medicines in the house, working hard to improve the quality of meals, and going to better medical centres or clinics when the means allow.

During FGDs, responding to the question on how they cope with illnesses for household members, many female participants indicated that they buy medicines such as painkillers, antibiotics and malaria curing drugs and store them in the house. The structured interviews revealed that 58 percent of the respondents take this precautionary measure. While this approach has merit, potentially wrong drugs can be used for a particular illness,

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[8] Twenty-three percent of the spouses were employed in the formal sector and 34 percent were unemployed or were not earning an income.

since in most cases they administer medicine without a prescription. Self-diagnosis, based on the treatments for similar symptoms in the past, was quite common.

Precautionary measures **against theft** were usually in the form of tightening security by paying a guard to watch over the shops at night, which is a common arrangement by groups of entrepreneurs in the market. Other theft prevention strategies include putting grill doors and burglar bars on the shops and sometimes security lights. Though identified as a risk for the businesses, theft is a rare occurrence in most of the communities.

5.2 Risk Management Strategies

Besides these precautionary strategies, poor households more commonly use risk management strategies to respond to crises and other economic stresses after they have occurred. The choice of response typically depends on the severity of the crisis and the economic status of the household. The economic status is a crucial factor, as most crises require availability of means to meet consequent expenses.

This section first reviews the prevalence of different risk management approaches. It then describes the difference between reversible and irreversible strategies, their relationship to economic status, and how these might change over time.

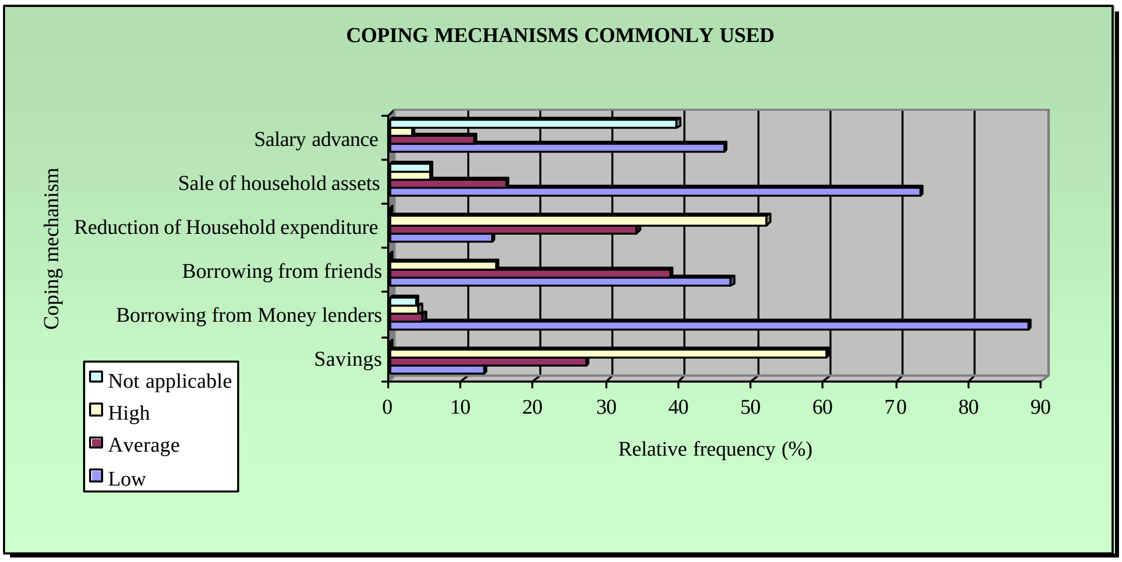
5.2.1 Coping Strategy Prevalence

Drawing down one's savings and reduced consumption were highlighted as the most common coping mechanisms (see Figure 8). Borrowing from friends was a somewhat less common approach, whereas selling off assets and borrowing from moneylenders were seen as last resorts.

Savings

Low-income households use a variety of methods to amass savings, which can then be used to fill in the gaps during a cash flow crisis. The most common approach is to save in the house, although many women also participate in savings clubs. Savings, however, is not a perfect solution; about 61 percent of the respondents find it difficult to save primarily because of household expenditure pressure. Savings issues are discussed in more detail in section 5.5.

Figure 8 Commonly Used Coping Mechanisms



Reduction of Household Consumption

Reduction of consumption was a common coping strategy for most economic stresses. When faced with an economic stress, for instance pressure to pay school fees, low-income households begin by reducing expenditure on non-food items. As the stress intensifies, the household reduces expenditure on expensive foods (usually high protein content foods such as chicken and beef), compromising the nutritional value of the meals. If the stress continues, the household reduces the number of meals. In some cases, one meal is taken usually around 4:00 pm to cater for lunch and supper. This strategy was described not just by the poorest households, but also by the not-so-poor and sometimes the better off. The case for the poorest households is particularly serious because they are already cannot afford a healthy diet. When struck by a crisis, the situation is greatly aggravated.

Sale of Household Assets

Low-income households do not usually sell off their assets as a coping mechanism although this does serve as a last resort. Most households endeavour to use other mechanisms before liquidating asset.

Borrowing from Moneylenders

Informal money lending, known as *kaloba*, is something most people try to avoid because of the high interest rates and concerns about having their assets seized. Nevertheless, roughly 15 percent of the respondents admitted to borrowing from moneylenders. Few respondents have lost their assets to moneylenders due to default, but all have heard of someone who has lost their assets. The role of moneylenders in risk management is discussed in section 5.5.

Borrowing from Friends

Reliance on social assets, especially for critical stresses such as death and illness, is another important coping mechanism. Friends are a source of money to manage risks, although it is not necessarily a loan in the strict sense; it is better defined as an unspecified reciprocal arrangement: "Assist a friend so that I get assistance when in need as well." This assistance may also extend to one's business activities, as described in Box 7. The primary social connection tends to be proximity, either from neighbours, other market vendors or church members.

Box 7 Reciprocity as a Coping Strategy

John L., aged 31, married with two children, sells cooking oil to earn a living. In 2000, two of his brothers died in one month. He was obliged to spend a lot on the funerals being one of the family members with a seemingly stable income. He used up most of his business capital. After the funerals he had to borrow a non-interest loan of K150,000 from a friend to continue the business.

Salary Advance

A salary advance is not a common coping mechanism because it was only applicable to households that have a person (in most cases a spouse) in formal employment. Salary advances are usually taken for family deaths and major expenditures such as children's school fees. Employers are less willing to approve an advance for other disruptions of an employee's household expenditure such as unexpected visitors.

5.2.2 Reversible and Irreversible Strategies

These risk management strategies can be categorised as reversible and irreversible. This categorisation is based on the views and sentiments expressed by the respondents: reversibility is largely determined by the length of time required for the household to regain its normal expenditure pattern.

When its economic condition is strong, a household can use reversible risk management strategies, such as reducing consumption, drawing down from savings, and borrowing from friends and neighbours. None of these strategies has a detrimental impact on household cash flow. As its economic situation worsens, however, the household becomes more susceptible to using irreversible mechanisms, such as borrowing from moneylenders and selling productive assets.

Households with a relatively high economic status are likely to have precautionary savings that facilitate coping, while poorer households find it difficult to save, as shown in Table 10. By definition, poorer households have limited cash flow flexibility and frequently struggle to meet regular expenditures such as food, rent and school fees. When struck by a crisis they find themselves relying on strategies that may leave them worse off.

Box 8 A Downward Spiral

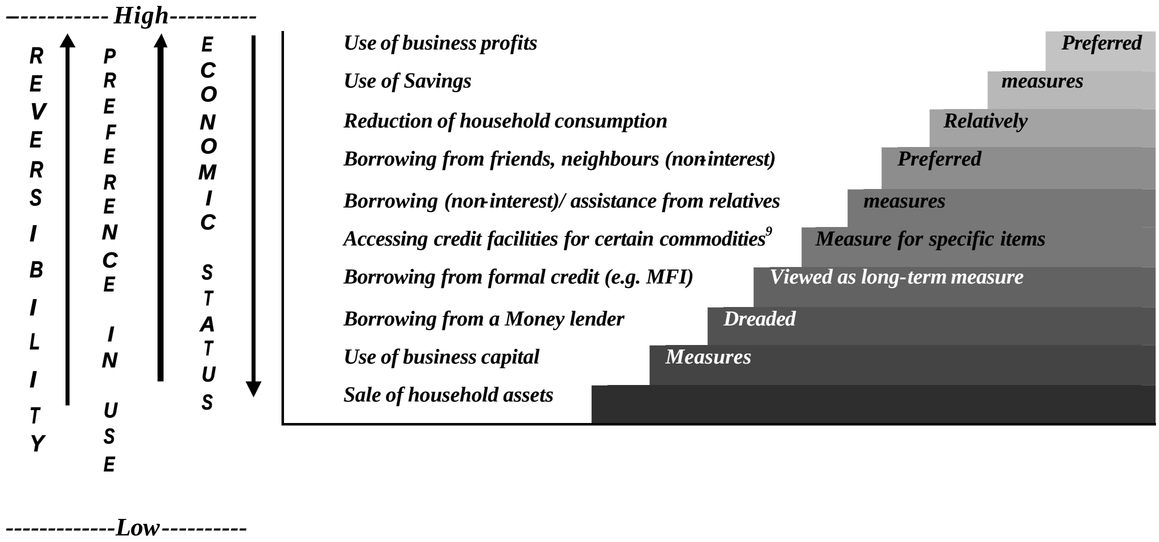
Thirty-two year old Joyce B. is a divorcee with two children and four other dependents. Her primary source of income is from selling second hand clothes (known as *salaula*). In 2001, she become ill for while and experienced a lot of problems in meeting household expenses and repaying her loan from Pulse. She had no savings to fall back on. She received assistance from relatives who visited her while she was ill, but the assistance barely tied her over. Joyce borrowed from a *kaloba* to meet some of her obligations, including her Pulse loan repayment instalment. According to her she was in perpetual debt for a long while and used most her business capital to pay back the moneylender.

Table 10 Monthly Income and Savings Difficulties

Monthly Household Income	Find it Difficult to Save (% of all respondents)
< ZMK500,000 (US$135)	73.4 (n=81)
ZMK500,001 to 750,000	48.7 (n=19)
> ZMK750,000 (US$203)	42.3 (n=22)

In low-income communities, crises and economic stresses are not singular sensations. They are known to occur frequently and concurrently. Until a household has regained its economic footing from a previous shock, such as re-accumulating a savings buffer, its ability to cope with subsequent shocks is diminished. So even a not-so-poor household may end up resorting to irreversible strategies if it is hit repeatedly. Figure 9 summarises and illustrates the types of coping mechanisms based of change of economic status.

Figure 9 Coping Strategies Preference and Change in Economic Status



5.2.3 Coping Strategies and Life Stage

Respondents were asked to describe what was meant by a high or low economic status, and what aspects of their livelihood precipitated a change in economic status. Better-off households usually had more than one income source. In most cases, particularly for female respondents, the spouse earned a salary. These households would generally have some savings and the business would be generating reasonably consistent profits (see Appendix 1 for a full description of the three categories: poor, not so poor and better off).

[9] This measure is usually for items, such as school uniforms or cooking equipment, which cannot be met from the household's regular cash flow. Offered by entrepreneurs in the community, this "pay slow" credit facility requires a small deposit with the balance is paid in instalments.

But what life cycle events are most likely to threaten this status? As discussed in the previous chapter, the death of a spouse not only generates considerable expenditure (to pay for the funeral) but also it creates a permanent change in the ability of the household to manage risk. Women in particular become more vulnerable after death of a husband, although the effect is similar in the event of separation or divorce.

There may be a change in the choice of coping mechanisms when the spouse dies, especially if he was significantly contributing to the household income (see Box 9). According to one respondent, "I didn't need Pulse's services before my husband died as he had a well paying job. We used to use our savings when stuck with a crisis. We had a savings account at the bank. Now things are so different. My small enterprise is our only source of income."

Box 9 Vulnerability due to Widowhood

Mulenga K., a 50-year old widow with seven children, has lived in the Chilenje compound for thirty-two years. She sells vegetables in the market and has been in business for ten years. Her monthly household expenditure is usually about ZMK500,000 (US$132) while her business income is ZMK335,000 (US$88). She makes up the difference by renting out rooms in her house.

In 1999, she was critically ill for long time and had to sell some of her clothes and maize to raise money for her medication. In the same year, thieves broke into the house and stole some valuable goods. According to her, it was a terrible experience, as she had to use almost the entire business capital to replace some essential stolen assets.

School fees are also a crucial expense for Mrs. K.; she participates in a *chilimba* because it provides the discipline she needs to save for this purpose. For most of the funerals she has experienced since her husband's death, she has received a lot of assistance from friends, neighbours and the church. Mulenga testifies that things were better when her husband was alive.

Another change in economic status mentioned by many respondents was precipitated by the unemployment of one's spouse, which again primarily affected women. Because of unemployment problems in Zambia, laid off workers often have difficulty finding new jobs. This places pressure on the woman's business to generate sufficient income.

Besides the economic changes caused by the death of an income earner, divorce or unemployment, the research did not find significant differences in risk-managing strategies depending on one's life stage. For example, women with young children did not seem to adopt a different approach than older women with grown children. What really mattered was the available means or economic status. The only exception is that some elderly respondents relied on financial remittances from children to cope with economic stresses, as described in Box 10.

Box 10 Reliance on Remittances

Finess C. is a 53-year old widow with two children. With her secondary education, Mrs. C was employed as a receptionist, but retired in 1992 on medical grounds. She is now almost entirely supported by her son who works in South Africa.

When she was working, her employer assisted her in payment of children's school fees and funeral expenses. She now runs a small business, which does not always generate enough income to feed the household.

In 1996, she lost a child and her son paid for the funeral costs. In addition, the son provided enough money for her to start a business. When Finess experienced prolonged illness stemming from high blood pressure, her son paid for the medical expenses, as well as her rent and electricity bills.

Mrs. C. no longer saves any money, as she has no surplus funds. She indicated that she would prefer to save than to buy insurance because the claims process is too long and the insurer has to verify whether the event really occurred. She borrows from friends from time to time.

5.3 Social Assets for Risk Management

Because of the financial limitations, low-income persons rely heavily on social capital as a coping mechanism.[10] Poor women in particular accumulate social capital by participating in clubs such as secret friend (see Box 11) and *chilimba* groups, as well as through church and other community associations. Informal reciprocity is also a relatively common means of coping with risks.

Box 11 Secret Friend—A Way of Acquiring Assets

Many women in the compounds around Lusaka form "secret friend" social clubs. The core activity of these groups is to exchange of gifts, often clothes and kitchen equipment, usually on a monthly basis. The groups agree on a standard value for the gifts to ensure that some members do not lose out by receiving far less valuable goods. Members also try to find out what the other members would want most so that they can buy appropriate gifts. Most of the women interviewed for this research consider the secret friend group as a nice way of acquiring assets, particularly kitchen

[10] While there is no generally accepted definition of social capital, Narayan (1997) defines it as "...the rules, norms, obligations, reciprocity and trust embedded in social relations, social structures and society's institutional arrangements which enable members to achieve their individual and community objectives."

utensils. According to them, "it is the commitment to buy the gift that counts…on your own, you would struggle to lay aside some money to buy these assets."

5.3.1 Savings Clubs

After saving at home, saving clubs are the second most common type of saving practiced by respondents. Savings clubs assist low-income households to accumulate capital for a variety of purposes, including consumption, business investment and as a crisis buffer, although their usefulness as a coping strategy is somewhat limited.

The majority of those in involved in *chilimbas* (61 percent) joined because they see it as a good means of savings. As one respondent said, "It is the financial discipline of saving a specified small amount every week or month that is good. It is difficult to discipline oneself to save money daily at home. The temptations are very high that when something for sale comes along you easily use up the money." Peer pressure from group members promotes this sense of discipline—women may prefer to be late with their rent payment or cut back on food expenditure to avoid embarrassment in front of their *chilimbas*. This saving method also has an illiquidity advantage since members can only access their funds when their turn comes around.

Thirty-five percent of *chilimba* participants joined because they see the group as a good means of meeting pressing needs, while 24 percent joined as a precautionary strategy for solving crises. During FGDs, most respondents indicated that they also joined a savings group to boost their businesses, "when your turn comes you receive a good lump sum of money which is added to the amount for [working capital] purchases." Some Pulse clients even use their *chilimba* to manage their loan repayments: "it is a better way of laying aside some amounts of money which add up to the loan instalment. When your turn comes you simply get this money and pay."

The *chilimbas* identified in this research vary from 3 to 15 members with weekly or daily savings amounts ranging from US$1 to $8. The amount received when one's turn comes around depends on the size of the group and saving instalments. Larger groups, those with 10 or more members, usually had smaller savings instalments (not more than US$3), and visa versa. Groups with small saving instalments typically had more frequent contributions, usually daily. In such groups, members receive between US$13 to $27 when their turn comes. Smaller groups usually required bigger instalments ranging from US$4 to $10, producing a pay out up to US$81.

Respondents generally indicated that they preferred a small group size for two reasons: the speed of rotation (in a small group your turn comes around quickly) and trust. Without a strong common-bond, some groups break down, as described in Box 12. The discipline generated by self-selected savings groups, and the preference for smaller group sizes and frequent payouts are valuable lessons for group lenders trying to replicate indigenous models for financial service provision.

Box 12 *Chilimba*: Not a Complete Success!

Twenty-nine year old Jane B. says, "*Chilimba* for me is an on-and-off thing because some members are not honest. Occasionally, in the groups I have joined so far, some members have defaulted and yet others would delay in paying the instalment. This distorts the intended benefits."

When asked how often *chilimbas* are undermined by fraud or mismanagement, respondents indicated that is infrequent. Substantial efforts are made to ensure that one joins or forms a *chilimba* with people she knows well and who are trustworthy.

Chilimba participation is more common among women. Of the 77 male respondents who saved money in one way or another, only 16 percent participated in a *chilimba*, compared with 58 percent of female respondents (see Table 11). Most male respondents indicated that saving in a *chilimba* is cumbersome, something for women only. Indeed women seem to utilise social assets better than men and hence have a broader base of coping strategies. Some women, particularly those among the better off respondents, belonged to more than one group (see Box 13).

Table 11 *Chilimbas* are for Women

Gender	Details	Yes	No	Total
Male	Actual frequency	12	65	77
	% within Gender of Respondent	16	84	100
Female	Actual frequency	59	42	101
	% within Gender of Respondent	58	42	100

Box 13 Saving in More Than One *Chilimba*

Gelly K. is a 47-year old divorcee with nine children. For the past three and a half years, she has run a grocery shop out of her home. On average, her business generates ZMK 800,000 per month in sales. The monthly household income of ZMK 500,000 includes net returns from her business as well as rent income and dividends (she has some shares in a company).

Gelly had a savings account with a commercial bank until last year when it closed due to liquidity problems. So she started saving in *chilimba* groups. She is a member of two groups; one with 5 members and monthly instalment of ZMK50,000, and another 4-person group with a monthly payment of ZMK200,000. Now she does not see much need for a savings account since her *chilimbas* are working well. She invests most of her payouts into her business.

While Gelly used her money from both *chilimbas* for her business, FGDs revealed that most women involved in multiple *chilimbas* used an expenditure targeting approach; one *chilimba* would be for a specific purpose (say raising school fees) and another would be for rent, reinvestment in the business or purchasing a big household asset.

Although common and multi-purpose, *chilimbas* are not necessarily an effective risk management strategy. In a typical group, members are expected to contribute the mutually agreed amount regardless of their economic situation. Although financial discipline is seen a primary benefit of *chilimbas*, a common complaint was that contributions are required even when one has been struck by a crisis. Former *chilimba* members indicated that this was a major reason they left the groups: “Saving in a *chilimba* is not very helpful especially when you are experiencing money problems. You really feel the pressure. Members still send their children to collect the contributions even when they know that your sister died.”

While many *chilimbas* are not flexible, a few groups, perhaps 10 percent, have amended their rigid structure to be more valuable for risk management. They have incorporated flexibility in their arrangement by having a provision that if a member were struck by a crisis, she would be given her “round” even if it were not due.

5.3.2 Reciprocity in Coping Mechanisms

Another important type of social capital utilised by low-income persons is reciprocity. Reciprocal support is most common for household crises such as death and illness. According to many respondents, “when struck by death of a household member for instance, sometimes you don't have to seek assistance, friends and relatives make contributions on their own. This is done mainly because your friend's problem today might be on you next time."

Box 14 Financial Assistance Sometimes Depends on Who Died

Zyambo C. (38) lost a husband in 1995. To pay for the funeral, she spent ZMK100,000 from her pocket, received ZMK150,000 from friends, and ZMK300,000 from relatives. Zyambo received a lot of financial assistance from her husband's relatives because they felt more responsible for the funeral expenses.

Reciprocal support is much less common to address general cash flow constraints, such as paying rent or school fees. For these economic stresses, respondents indicated that, if reduced consumption did not free up sufficient funds, they were likely to borrow from friends and relatives, often without interest. Conversely, for shocks like death, people unusually do not have to borrow money because assistance is provided through reciprocity.

Both reciprocity and inter-household borrowing are facilitated through participation in social structures like *chilimbas* and church groups. For example, although the *chilimba* itself may not serve an effective risk management function, the social relations that it fosters can be useful in two ways. First, *chilimbas* provide forums for low-income persons to consult each other on coping strategies. For example, consultations among market vendors have led to the creation of funeral funds to which they contribute a fixed sum every week (described in section 5.5). Second, social relations strengthen ties for reciprocity and inter-household borrowing. Although the payout from informal funeral funds is not usually sufficient to pay for the whole funeral, for example, it is often supplemented by reciprocal support from individual members.

Although the relations are quite complicated, inter-household support appears to be motivated by three main factors. First, people give money or other assistance in times of crisis on the expectation that recipients will return the favour in the future. This informal obligation seems to be fortified through participation in other social structures since that increases the likelihood that one will actually benefit in the future. Inter-household borrowing appears to be based on similar motivations as reciprocity, but for different purposes, addressing cash flow constraints rather than crises. A second motivation is family obligations, for example to give money to needy relatives from rural areas. This obligation is not accompanied by any expectation of reciprocation. Since some extended families only include one or two persons who earn reasonable wages, familial obligations can represent a significant expense. A third motivation is benevolence, when one assists needy persons not in one's family from whom reciprocity is unlikely and unexpected.

5.4 Physical Assets for Risk Management

People living in low-income compounds around Lusaka often acquire assets such as radios, cassette recorders, refrigerators, televisions, VCRs and stoves (see Table 12 for a distribution of asset ownership among respondents). While most people buy these appliances because they want them, a small number of persons do so as a risk management strategy. Rather than stashing away spare cash in the bank or under the mattress, 12.5 percent of the structured interview respondents said that they buy appliances above and beyond their households' needs so that they can sell them during cash flow shortfalls.

Table 12 Asset Ownership

Ownership of assets	Frequency	Percent
Beyond four basic assets plus a vehicle	10	5.0
Beyond four basic assets without a vehicle	46	23.0
All the four basic assets	34	17.0
Any three basic assets	30	15.0
One-two of the basic assets	67	33.5
None of the four basic assets	13	6.5
Total	200	100.0

Key: *Four basic assets: refrigerator, electric cooker, radio and television; Beyond the basic assets-includes VCRs, satellite decoders etc.*

Savings-in-kind may be a more appropriate for risk management than cash savings because appliances are basically inflation and devaluation resistant. Furthermore, because they are not easily liquidated, in-kind savings is less vulnerable to impulse buys than cash. The two main problems associated with this risk management strategy are: a) having sufficient storage space and b) being able to sell them at an appropriate price when cash is really needed.

Even those persons who did not intentionally purchase assets for risk management purposes sometimes resort to selling off household items to cope with a cash flow crisis. Although certainly not their first choice, they may resort to liquidating household assets after they have tapped out their social assets. Would they prefer to borrow from moneylenders or sell off assets? The results seem to suggest that men prefer to approach the moneylender while women, after they have exhausted their social channels, are more inclined to sell off assets as long as they do not generate income or are not needed to fulfil their domestic responsibilities (e.g., it would be preferable to sell a television than a sewing machine), however this issue requires closer analysis.

5.5 Financial Assets for Risk Management

To manage risks, low-income households may rely on one of three financial assets: they may draw down on any savings that they have accumulated; they may borrow from various sources based on their character and/or collateral; or they may participate in a risk pooling insurance scheme. This section looks at the details associated with each of these financial assets; Table 13 summarises the main strengths and limitations of the most common risk-managing financial assets.

5.4.1 Saving

Most respondents expressed a clear and strong recognition of the need and importance for savings. Indeed, 89 percent of the respondents save in one way or another. They indicated that savings allow households and individuals to store current income for future protection against risks and cash flow gaps. Savings provide a source of liquidity in case of emergencies and therefore improve a household's economic security by smoothing consumption when income flows are interrupted.

Table 13 Strengths and Limitations of Risk Coping Financial Assets

Coping Mechanism	Strengths	Limitation	Prevalence
Saving at home	• High liquidity • Money saved not affected by Bank closures	• Challenge of financial discipline • Risky of money being stolen • Erosion of the purchasing power of money saved • Not disciplined	High
Saving in saving club	Works well for: • Accumulating funds for investment • Purchasing household assets	• Not typically a solution to economic shocks or emergencies • Only prevalent among women	High among women
Saving in a bank	• Safety guaranteed • Money saved gains interest	Prevalence is low due to: • Conditions regarded as prohibitive • Lack of confidence in the banks	Low
Borrowing from moneylenders	• Quick access • Effective for economic stresses	• Exorbitant interest rates • Image of moneylenders	Low
Non-interest borrowing	• Effective for economic shocks	• Depends on coincidence of need and availability of funds • Applicable to only certain types of economic stresses	Average

Two types of saving that were discussed above—chilimba as a social asset and in-kind as a physical asset—both have a strong illiquidity feature. In addition, low-income households also require a more accessible savings option. As shown in Table 14, most respondents make use of informal savings arrangements, with 70 percent saving at home. This finding probably reflects obstacles to opening and maintaining a formal bank account rather than a strong preference for informal savings.

Table 14 Savings Orientation - Prevalence

Type of Savings	Prevalence %
Saving cash in a formal financial institution	17.5
Saving cash at home	70.0
Saving cash in a *chilimba*	35.5
Saving in-kind	12.5

Formal Savings

Based on focus group discussions, most low-income persons find bank facilities unaffordable or inaccessible. Savings accounts usually have prohibitive minimum balances, ranging from US$80 to $270. The only exception is the National Savings and Credit Bank, a government bank, which only requires an opening balance of US$8. In general, attractive interest is only paid on accounts with high balance requirements (though the real yield is still usually negative because of inflation hovers around 18 to 20 percent).[11] Some accounts charge monthly fees that make them inappropriate savings vehicles for people with small account balances. Table 15 summarises the savings products of major banks in Zambia.

Table 15 Sample of Savings Products by Zambia's Commercial Banks

BANK	Savings Type	Minimum Balances (ZMK)	Monthly Fees (ZMK)	Interest rate (%p.a)
Barclays Bank	1. Bank account	Nil	8,500 minimum	Nil
	2. Instant savings account	750,000 ($197)	Nil	12-13
	3. Higher rate savings	1,000,000 ($263)	Nil	14
Standard Chartered Bank	1. Ordinary savings[12]	750,000 ($197)	Nil	10-12
	2. Savings plus	500,000 ($132)	Nil	10-14
Indo Zambia	1. Ordinary savings	50,000 ($13)	Nil	7-8
	2. Savings with chequebook	100,000 ($26)	Nil	7-8
Stanbic Bank	1. Savings	500,000 ($132)	Nil	8-12
Zambia National Commercial Bank (ZANACO)	1. Ordinary savings	50,000 ($13)	10,000 monthly	13
	2. ZANACO Saver	250,000 ($66)	Nil	15
National Savings and Credit Bank[13]	1. Ordinary	30,000 ($8)	Ledger fee-2,000 monthly	8

Research in other countries generally suggests that the poor are less concerned about earning interest on savings than with access and security. This study, however, found that respondents expected to earn a return on their savings. They expressed clear displeasure of formal savings products that diminished their savings: "The money keeps reducing instead

[11] One savings product offered by one international bank (Standard Chartered Bank Plc) has a minimum balance of US$270 with a benefit of health insurance as long as one consistently maintains the account with minimal withdrawal and an intact minimum balance.

[12] All Standard Chartered savings account holders who maintain a balance of ZMK 1 million or more enjoy medical insurance which covers hospital bills up to a total of ZMK 1 million per insurance period (12months).

[13] National Savings and Credit Bank is a government bank that targets micro savers and has branches in some peri-urban areas of Lusaka.

of increasing…they keep deducting even if you haven't made any withdrawals… it's not worth it."

Some respondents also highlighted the distance to the banks as an impediment because one has to incur travel costs to make a deposit no matter how small the amount. Most commercial banks have branches in the city centre, but not in the compounds. In addition, the time spent to make a deposit is time away from one's business, so the opportunity costs can also be quite high.

A strong minority of participants fear that they would lose their savings due to bank closures, which were common in the 1990s. In 1991, the liberalisation of financial services by the Zambian government gave birth to a number of commercial banks, many of which did not last long, leaving residual apprehension in the minds of many savers.

In this sample, women were more likely to have a bank account than men. Twenty-three percent of the women borrowers saved in a formal bank while only 11 percent of the men had savings accounts.

Savings at Home

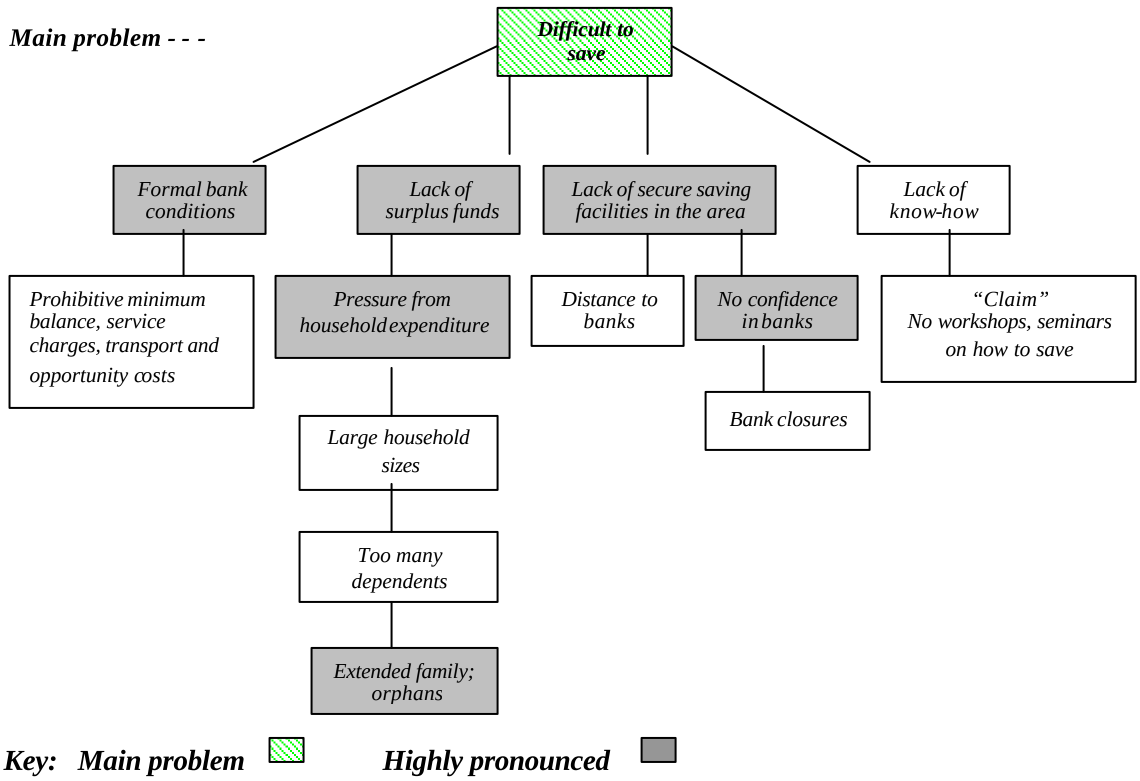
Since most savings products offered by Zambian commercial banks are not designed for low-income persons, it is not surprising that the vast majority of savings takes place at home. As one respondent said, "There are no better alternative secure facilities within reach. One has to incur transport costs in order to save. Also, banks have many conditions, and the potential closure of banks instils fear in us as far as saving in a bank is concerned."

Although saving at home does not earn any interest, at least cash under the mattress does not incur bank fees or transport and opportunity costs. There are, however, some significant limitations to this saving strategy. Many respondents were concerned that their secret savings place would be discovered. While some women trust their spouses—"Though risky, the money is usually kept at a secret place which should be known by you and sometimes by a trusted member of the household usually the spouse"—others try to hide the money from their husbands to ensure that it is not spent at the local bar. In addition, it is hard to maintain self-control, to ensure that the money is really safeguarded for emergency purposes, when cash is easily accessible.

Difficulty in Saving

Low-income persons find it to difficult to save. Sixty-one percent of the respondents said that they have difficulty saving, and 11 percent do not save at all. The PRA problem tree technique was used to capture why low-income persons find it difficult to save, as shown in Figure 10.

Figure 10 Factors Hindering Low-income Persons from Saving



The responses from structured interviews reinforce the problem tree findings with frequencies of savings challenges (see Table 16). While most respondents in structured interviews highlighted a lack of surplus funds as the main obstacle, the problem tree analysis indicated that household expenditure pressure explains why low-income households do not have surplus funds. Respondents indicating that they failed to save because they hardly had surplus funds were normally found in the lower income brackets as indicated in Table 17.

Table 16 Savings Challenges

Reasons	Relative Frequency (%)
Never with surplus funds	71
Household expenditure pressure	61
Pressure from loan repayments, usually in debt	15
Pressure from unexpected visitors; financial assistance to relatives	9
Fear of bank closures/No safe savings facilities	9
Too many dependents	8
Crises problem	5

Table 17 Monthly Income and Surplus Funds

Monthly Household Income	Never with surplus funds (% of respondents)
< ZMK500,000 (US$135)	72 (n=62)
ZMK500,001 to 750,000	36 (n=14)
> ZMK750,000 (US$203)	12 (n=10)

A majority of the respondents said that it was more important to improve their businesses than to take significant precautionary measures for crises. They believed that the best way to manage risk and cope with economic stresses is to increase their income base. Although they may maintain a small savings buffer, these entrepreneurs, especially men, would rather invest money in their businesses than save it for unforeseen circumstances (see Box 15). By doing so, they believe that they were unlikely to experience cash flow problems when faced with an economic shock.

Box 15 Savings Averse

Focus group discussions revealed that, although they usually maintained some savings, most microentrepreneurs (approximately 65 percent of the respondents) were more inclined to reinvest surplus funds into the business rather than save. There appear to be both push and pull motivations behind this behaviour. On the one hand, explanations suggested a lack of attractive formal savings facilities as a major factor: “Even if I wanted to save to earn some interest, where do I save?” “The conditions in the banks are bad. You are better off putting your money back in the business.” On the other hand, there were strong indications that reinvestment also reflected a desire for business growth. “My business capital is too small…if it is to grow I have to keep pumping in more money.” Men in particular showed a strong preference for putting money into their businesses, whereas women appear to be somewhat better savers.

Loan Insurance Fund

Although all Pulse clients have a savings service through the MFI’s inappropriately named loan “insurance” fund (LIF), none mentioned this resource when asked about their savings behaviours. This finding suggests that clients do not actually think of this fund as savings. Since LIF is mandatory and clients can lose their savings if they or other group members default, LIF is seen as a cost of borrowing

5.4.2 Borrowing

If a low-income person does not have savings to manage risks, or prefers not to draw it down, the main alternative is to borrow money. As indicated above, loans from Pulse are not designed for emergency purposes. Bank loans are not realistic options for most compound residents—none of the respondents had credit cards or access to other formal credit facilities. After one has exhausted the option of borrowing from friends and neighbours, the only realistic source for an emergency loan is from the local moneylender.

Only 15 percent of the respondents indicated that they borrowed from moneylenders. There is some evidence to suggest that access to a microenterprise loan reduces reliance on the moneylenders; several focus group participants said: “We stopped borrowing from moneylenders ever since we started borrowing loans from Pulse.”

In general, the high interest rate, 50 to 100 percent for a month, is considered the main deterrent to this source of credit. The interest rate is usually for any period less than a month and hence a minimum rate even for a loan repaid in a couple of days. Non-payment of debt by the end of the one-month term results in a doubling of the interest payment. Seizure of assets is the penalty if non-payment continues for a couple of months.

According to FGD participants, moneylenders or *kalobas* are usually entrepreneurs engaged in other business lines (usually big businesses), who have surplus funds to lend out. It is rare to find someone whose sole business is money lending. Moneylenders "do not like lending in the compounds themselves, but tend to operate where they are close to and know about the borrowers income source, thus around places of employment and markets. A lender will have a relatively small number of clients at any one time, roughly between 5 and 20."[14] Most moneylenders lend out between US$25 and $150.

The attitude toward *kalobas* is mixed (see Box 16). During the FGDs, all groups but one ranked "Borrowing from Moneylenders" as their last option, largely because of the interest rates. The other focus group, however, ranked moneylenders as the second most common coping strategy after savings. According to participants in this group, depleting business capital as a coping mechanism has more adverse effects on income than borrowing from a moneylender.

Box 16 Attitudes about *Kaloba*

Fear: "I have never borrowed from a money lender, and to me this is really a last resort." "The interest is just too high. I don't want what happened to happen to my neighbour happen to me."

Helpful but… "Moneylenders are helpful at times when you have no way out. The major problem is the interest rate charged and the grabbing of assets."

You get what you want and when you want it! " Putting the interest rate aside, they are helpful because you can get the amount you want and when you want it. I once borrowed to increase my money for business purchases. I can't regret; it was very helpful." "Although it is not a source of money one should always go for, as it requires hard work to pay back."

A comparison to MFI services: "While the Pulse loans are good because the reasonable mode of repayment and interest rate, one has to go through the chain of process such as group formation. Further you do not usually not get the loan amount you want." "Sometimes you lose a business opportunity because you have to wait some weeks before you get the loan. I once had a business opportunity that required an immediate injection of capital. I just had to borrow from a moneylender. Things worked out. I managed to make profit and pay the moneylender."

[14] Copesake *et al.* Impact Assessment Report on Pulse, Nov. 1998.

Box 17 A Reasonable Moneylender!

Harriet N.'s major source of household income is selling vegetables and foodstuffs. When her business suffered after a household member experienced a long illness, she borrowed from a moneylender to rescue the business from total collapse. She got ZMK150,000 (about US$40) to repay at 50 percent in one month. She experienced some problems in repaying it and, according to her, the *kaloba* was very understanding because he is also in business. Harriet repaid the loan in three months with no additional interest. "This gave my business breathing space and I was able to get back on track… I was very grateful because you don't get such types of moneylenders here."

While the moneylender's services are occasionally used to take advantage of a business opportunity, their services are more likely used to manage risks. During FGDs, there were strong indications that low income persons borrow from a moneylenders primarily when struck by a crisis risk, as described in Box 18.

Box 18 Moneylender's Services are Valued for Crises

Although only twenty-two years old, Mwanza M. is the primary income earner for his mother and three siblings. He has main two sources of income: a grocery shop and house rentals, with monthly income of ZMK180,000 and ZMK200,000 respectively. He also earns a little extra money working as a security guard at night.

In 2000, thieves broke into his house and all stole all his household goods. Mwanza got an advance from his work, but still had to borrow from moneylender to buy urgent necessities. Relatives assisted him with cooking utensils and blankets. Mwanza also said that he has borrowed from moneylenders to pay medical bills.

When asked about his perception of the services provided by moneylenders, Mwanza said they are helpful though it is expensive to service the debt.

Moneylenders are much more likely to be frequented by men than women. Women were much more concerned about the moneylenders' interest rates and asset seizure than men. It was common to hear from women that they fear moneylenders because they observed a neighbour or friend lose assets due to default. Information from FGDs indicated that most moneylenders were men. It was also revealed that in some instances when a household is struck by a crisis it would always be the man to borrow if it comes to borrowing from a moneylender.

5.4.3 Insurance

Formal sector insurance was even a less common risk management strategy than formal savings. Besides the Pulse coverage (described in Table 18), which many people are not even aware that they have, none of the persons in the focus group discussions or unstructured interviews had experience with formal insurance. In the structured interviews, 13 respondents (7 percent of the sample of 200) had or had had an insurance policy. The types of insurance polices accessed were life or funeral insurance (majority 9 out of the 13), endowment (1) and motor vehicle insurance (4). Those persons with insurance experience were generally well educated and not so poor.

Table 18 Credit Life Assurance Scheme: Madison and Pulse

Credit Life Assurance Scheme	
Product Description	The Credit Life Assurance Scheme is mandatory for its borrowers intended to eliminate the liability of loan repayment by the next of kin(s) of the borrower, in the event of his/ her death or sickness.
Target clientele	All Pulse borrowers
Intended benefits	Coverage for group guaranteed loan
Product coverage	• Death by illness • Sickness cover for medically certified illness exceeding 14 days
Exclusions	• No specified exclusions
Pricing	The pricing for product is according to the loan term: <u>Loan Term</u> <u>Single Premium Rate</u> 0 - 26 weeks 2.0% of sum assured 27-52 weeks 2.5% of sum assured 53-104 weeks 3.5% of sum assured
Other product features	• Mode of premium payment-single premium in advance • Qualifying age limits: 18 – 62 years old • No medical examinations required • Claims are settled expeditiously within a maximum of seven working days

This research, however, identified several examples of informal insurance. Funeral funds can be found in many marketplaces and sometimes among church congregations. Weekly premiums, usually ZMK500 to 1,000 (US$0.13 to $0.26), were based on what members could afford rather than an actuarial analysis. The premium income was usually held by the fund's treasurer, or split between the treasurer and the vice-treasurer. Although this arrangement raises security and fraud concerns, it makes it possible for money to be immediately available to a household in need. Coverage was usually extended to all household members, or anyone for whom the funeral would be held at the member's house. The membership of funeral funds ranged from 20 to 50 persons; familiarity among members helps to control adverse selection. The typical benefit amount of ZMK 50,000 (US$13)—sometimes provided in the form of firewood and food—is insufficient to meet all funeral costs, but it is a start. Some members indicated that it was common for fellow fund members to make extra contributions to assist one who has been struck by a funeral.

In some markets, entrepreneurs have formed funds with bigger amounts and made their contributions on a monthly basis. One funeral fund was exclusive to entrepreneurs selling stationery; it had a registration fee of US$5, a monthly contribution of US$1.35, and a benefit payout of US$160. In another funeral fund, premiums were US$2 per month and an elected committee determined the benefit amount based on the type of loss (i.e., income earner vs. distant relative) and on the available funds; of course, problems arose when the fund was depleted.

A few respondents had experienced deaths after they stopped making contributions to the funeral fund and consequently did not benefit. Many considered this to be a loss. The elected committee was strong on implementing this as insurance companies do: "No refund if one withdraws and the benefit is conditional to consistency in contributions."

More details about insurance are provided in Chapter 6, including information about low-income people's understanding and perception of insurance, and the possible demand for insurance vis-à-vis savings and credit.

5.6 Coping with Business-specific Risks

For microentrepreneurs, there is a significant overlap between personal and business risks. There are however certain risks that are specific to the business, as identified in section 4.3, and for some of these risks or threats there are specific coping strategies. In the focus group discussions, a matrix ranking (Table 19) was conducted to analyse the coping strategies for business risks. The results show that insurance and other financial services are not currently used to cope with business risks, nor would they be appropriate. However, business skills training on issues such as marketing, credit management, customer service and pricing might be in significant demand.

Table 19 Measures Taken to Deal with Business Risks and Threats—Matrix Ranking

Risk/ Business Vulnerability	Measures Taken to Deal with Business Risks and Threats											
	Consultations with fellow entrepreneurs	Employ a Guard[15]	Friends & Relatives	Improving customer relations	Shift business location	Diversification of business line/Change of product	Offering a credit facility	Revising pricing (including offering Discount)	Savings (Usually informal)	Vigilance	Training a child	Improved Advertising
1. Low demand				******	*	**	***	****				*****
2. Theft		**			*					***		
3. Non-payments from customers						*						
4. Lack of Business Skills	*											
5. Household crisis (deaths)			*						**			
6. Being a sole trader											*	
7. Loss through damaged goods[16]								*				
8. Increasing competition				******	*	**	***	****				*****
9. Debt repayment									*			
10. Poor location				**	*							***
11. Fire					*					**		

Key: The more the stars (*), the higher the degree of use. [shaded box] Implies not applicable or used for particular risk

5.7 Conclusion

Matrix ranking was also used with personal or household risks to pair common coping mechanisms with different types of economic stresses (see Table 20). Respondents were asked to identify the economic stresses that confront them and the coping mechanisms they normally use. A series of probing questions then determined which coping mechanism works for which economic stress, and how frequently the coping mechanism is used.

The results indicate that informal savings was widely used for different types of economic stresses. For most risks, the second most common coping strategy is to take

[15] Entrepreneurs operating in the same marketplace come together and employ a guard for several shops.
[16] Damages usually experienced by entrepreneurs selling perishables.

money or assets out of the business, although it is the microenterprise is the primary source of funds for food and health care costs. Budgeting was the primary means of managing, or trying to manage, most household expenditures, such as electricity bills, rent and school fees, but this strategy largely depended on the household's income-expenditure ratio; there were indications that some low-income households rarely have a balanced budget: "…we just decide to live within our means and it is still rough." Reduction in consumption was also another widely used coping mechanism. Notably household consumption especially for food was adjusted in the event of unexpected visitors, additional dependents, huge electricity bills, food price hikes and servicing of a debt. The adjustment in food consumption was mainly reflected as a reduction in the quality of meals and in some instances number of meals.

The results also reveal the critical role of the microenterprise in managing risks. Without alternative sources of funds, many low-income persons are forced to de-capitalise their businesses to meet basic needs, such as food and rent, as well as to cope with shocks.

Table 20 Matrix Ranking (Adaptation) – Economic Stress by Coping Mechanism

Economic Stress	Gifting/borrowing from relatives and friends	Shifting to less theft prone areas	Farming (gardening)	Use of savings (Usually informal)	Reduction in consumption	Borrowing from Money lender	Sale of assets	Use of business capital	Use of business profits	Budgeting
1. Sickness (Household)	***			*****		*	**	******	****	
2. School fees and related expenses	****			*******		*	**	***	*****	******
3. Funerals	****			******		*	**	***	*****	
4. Food	*		*****	*******	****	**	***	*********	********	******
5. Rent				******		*	**	***	*****	****
6. Births				****				*	**	***
7. Unexpected visitors				****	**				*	
8. Too many dependents			****		***				*	**
9. Theft at the house		*		******				**	***	*****
10. Electricity bills				*******	******	*	***	**	****	*****
11. Financial request from relatives				***					**	*
12. Debt	**				****		*	*****	***	

Key: The more the stars (*), the higher the degree of use. Implies not applicable or used for particular risk.

CHAPTER 6: IS THERE A DEMAND FOR MICROINSURANCE?

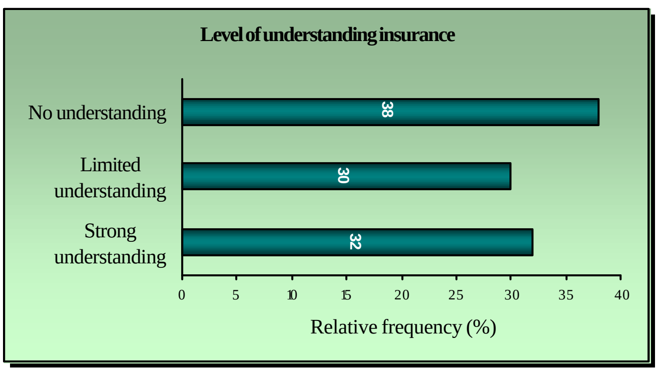
It is quite difficult to estimate the demand for a product that does not really exist. In a sense, supply will create its own demand, which is to say that once a product is introduced into the market it will generate a demand that one could not have predicted. In the meantime, it is necessary to infer possible demand for microinsurance by identifying risks that occur frequently, create sizeable losses, and for which the existing coping strategies seem to be inadequate.

This chapter begins by analysing the market's understanding and perceptions of insurance. The chapter then considers the relative attitudes of the market toward the three risk managing financial services—savings, emergency loans and insurance. Finally the chapter concludes by summarising the implications of this evidence for the potential demand for microinsurance.

6.1 Knowledge of Insurance

Responses during the unstructured interviews and FGDs indicated that low-income persons have a shallow understanding of insurance. The majority actually expressed ignorance. Structured interviews helped to categorise this level of understanding. Figure 11 shows that only a third of the respondents demonstrated a strong understanding of insurance.

Figure 11 Level of Understanding



Strong understanding implies the respondent had a clear definition of insurance and how it works, that is, payment of premiums and a conditional benefit if the insured event occurs. Limited understanding signifies a basic grasp without full knowledge of how insurance works. No understanding captures both misunderstanding as well as inability to define insurance. Box 19 provides some examples of how respondents were classified into these three categories.

Box 19 Understanding Insurance, Some Quotes

Strong Understanding

"A guarantee against loss, damage or failure to property, health, and life. You pay a certain amount of money to enter into a contract and remain in one. When calamity strikes, insurance company can replace or compensate you for the loss or damage incurred."

"It is safeguarding of property against fire, theft, and accidents by joining an insurance company to whom you make payments of small amounts periodically and in the event of an accident, damage or theft, the insurance company compensates you."

"Compensation that is received by a person one who joins the insurance company receives against loss or damage to property after paying a regular premium to the insurance company. One cannot receive this compensation unless loss or damage has occurred and it has to be ascertained that it was not caused by yourself."

Limited Understanding

"Insurance is cover given to property or life by insurance company in case of a calamity."

"When items are damaged, a company can help to replace them."

"Is protection given to you if your insured car is involved in an accident."

No Understanding

"Is giving money that can be returned to you when you have a problem."

"I'm not so sure."

"Surety that someone makes if a customer makes an order for things that are not in stock, they need to leave some deposit/money as an assurance that he will come to buy that item."

To determine who understands insurance, some cross tabulations were done with education, gender and literacy variables, as shown in Table 21. Not surprisingly, the higher the educational attainment, the greater the likelihood that one understands insurance. Those who were not educated at all had no understanding while those who attended college or university showed a strong understanding of insurance. There was a similar relationship for literacy.[17] Respondents who could not easily read and write typically did not understand insurance. In addition, men had a higher know-how than women. While only 22 percent of the male respondents interviewed had no understanding of insurance, half of the females had no understanding.

Table 21 Who Really Understands Insurance?

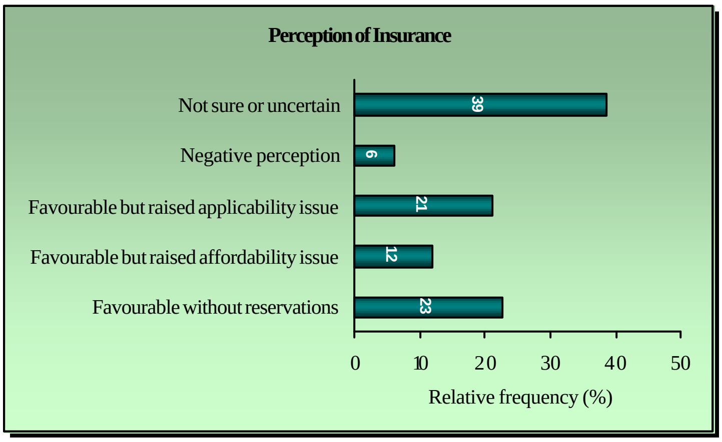
Indicator	Categories	Level of understanding insurance		
		Strong understanding (%)	Limited understanding (%)	No understanding (%)
Education	None	-	-	100 (n=10)
(% within level	Primary	20 (n=18)	26 (n=24)	54 (n=49)
of education)	Secondary	43 (n=36)	38 (n=33)	19 (n=17)
	College/ University	73 (n=8)	27 (n=3)	-
Literacy	Easily	46 (n=45)	42 (n=41)	12 (n=12)
(% within level of	With Difficulty	24 (n=17)	18 (n=13)	58 (n=42)
literacy)	Not at all	7 (n=2)	20 (n=6)	73(n=22)
Gender	Male	38 (n=33)	40(n=34)	22 (n=19)
(% within gender)	Female	27 (n=31)	23(n=26)	50 (n=57)

6.2 Perception of Insurance

Respondents who had some understanding of insurance (i.e., those in the "strong understanding" and "limited understanding" categories) were asked about their perception or impression of insurance. Figure 12 depicts the relative frequencies for five categories of responses. Thirty-nine percent of the respondents did not indicate any perception because they were not sure they knew enough about insurance to express opinions on the subject. Only twenty three percent expressed a favourable response regarding insurance without reservations.

[17] Literacy was measured in terms of the ability to read and understand a document or a newspaper. Respondents classified themselves into three categories: Easily, Some/With Difficulty, Not at All.

Figure 12 Perception of Insurance



Affordability and Applicability Reservations

One third of the respondents had reservations, which were broadly classified as affordability and applicability. Those who were categorised under "affordability reservations" mentioned that while they knew the benefits that stem from insurance would help them cope with risks, insurance was beyond their means. It was common to hear the phrase, "only people with a lot of money can afford insurance." Applicability reservations were slightly different as respondents indicated that they did not have anything that was worth insuring. Some illustrative quotes regarding affordability and applicability reservations are provided in Box 20.

Box 20 Insurance Reservations: Affordability and Applicability

Affordability Issue

"Insurance should be accessed by all who can afford to pay the premiums to protect themselves and their property against fire, theft, accident, disease and death."

"Insurance is something that needs a lot of money. People who have money can insure against accident, fire and theft."

"It is good especially when you have a big business, but when the business is small, it becomes a big burden to be making contributions to the insurer. Anyone who has a strong business must access insurance against theft, damages, or injury to themselves or their households."

Applicability Issue

"Insurance is good if you have valuable goods which might be stolen or damaged. But if you don't have valuable assets and money, it is not important to insure."

"Is available for those who have a lot of assets such as cars, houses and big household assets"

It is clear from these responses, as well as the responses as a whole, that respondents primarily associate insurance with property risks, occasionally with death risks, but rarely with health risks. This association may negatively bias respondents' perspective of insurance since—as shown in the analysis below—property insurance is probably the least appropriate type of cover for this market.

Box 21 Perceptions of Insurance: Representative Comments from FGDs

Negative Views

"Insurance is an additional cost, I would rather cope with a crisis with savings, especially saving in the form of assets. This has worked well for me so far. Every time I have surplus funds, I simply buy assets which I can sell when I am faced with a pressing crisis."

"For now, I would rather work towards increasing my income, asset base and livelihood, only then can I think of insurance."

"The money that I have should not be spent on something that I will only benefit from when struck by a crisis. I have many needs and some other event may occur which I have not insured".

"It takes long to receive the benefit after a claim. Although I have not personally accessed insurance, this seems to be the major complaint I have heard. This makes me not even think about insurance."

"I have some money at home. I got a loan from Pulse to expand my business. If I had the surplus funds I would consider saving first, then maybe insurance."

"I would prefer savings to insurance because I can get the money whenever I need it."

"In as much as I would want to save now, I am no longer saving because of inadequate funds, but I would still prefer savings to insurance. Insurance is a long process—verifying whether the event occurred and the like. When faced with a crisis, I usually borrow from friends."

"I think insurance is for people with a lot of money."

"I see insurance as an expense where the event does not occur until your death."

"I see insurance as an expense where the money cannot be redeemed; it takes long to receive payments after claims."

"I find it difficult to save because of meagre profits I make from my business, I can not even afford to maintain a savings account in a bank. I see insurance as an unnecessary expense for a risk that does not normally happen. This money used for insurance can be used for other things."

"I cannot afford insurance because of inadequacy in terms of money, but I can easily manage savings."

"Insurance is really an expense that can be avoided."

Positive Views*

"My business is poultry; rearing chickens, I would really like to insure my chickens against theft."

"I would be interested in insurance, but it is something new to me. I am willing to consider it if I can receive a lot of education on it."

**Note: There were few positive views expressed during data collection phases for FGDs and unstructured interviews.*

Negative Perceptions

Nine percent of those respondents with a strong or limited understanding of insurance expressed strong negative views, either based on their own experience or through hearsay. The primary complaint was the length of time for claims to be paid. A few mentioned that insurance firms and brokers are not trustworthy. Even stronger negative perceptions emerged during the focus group discussions; representative comments from the FGDs are highlighted in Box 21.

In sum, 42 percent of the respondents either think that insurance is not appropriate for them or have a negative view about insurance, while 39 percent do not have sufficient information to form an option. With full knowledge that they are vulnerable to risks, and that insurance is one way to protect against them, lack of exposure makes the majority of low-income people feel that insurance is not applicable to them, they cannot afford it, or they have more pressing needs.

6.2.1 Evidence from Formal Insurers

To gain another perspective on insurance, this research conducted key informant interviews to solicit the opinions of insurance professionals and consulted the literature (see Box 22). Although they do not target low-income households, the views of insurers regarding the demand for insurance are insightful.

In general, insurers believed that Zambians have a strong anti-insurance bias, particularly as it pertains to health insurance. According to one insurance official, "For Zambia, the demand for insurance has also been adversely affected by macroeconomic background. Taking health care, for instance, the 1960s and 1970s were associated with free medical services that were of good quality. Having to pay for quality medical care now is something highly dreaded by many, not only low-income persons."[18]

Regarding life insurance, the same official pointed out that some segments of the low-income market, particularly illiterate or uneducated persons, have a social bias against insurance. "Our experience...has indicated that beliefs play a role in the demand for certain

[18] Mary Mondoloka, Director, Madison Medical Insurance Scheme.

types of insurance. For example, paying for life insurance may be taboo, as if one is preparing for death." Insurers pointed out that the general public was not generally accepting of risk pooling as a preventative strategy, although it was common to share the burden when crises actually occur.

For insurance to be widely accepted in low-income communities as a legitimate risk-managing strategy, insurance professionals believe that a significant investment must be made in social marketing or education campaigns to overcome negative attitudes and social biases.

Box 22 Provision of Health Insurance: Viewpoint of Commercial Insurers

A study done by Mwanza (1996)[19] on the potential health care provision by commercial insurance companies in Zambia reveals that the market for health insurance is too small and too risky. To date, Madison Insurance Company is the only private firm offering health care coverage.

The study by Mwikisa et al (2000), *"Sources of Health Care Finance: A Discussion of Potential Options for Zambia,"* acknowledges that an important goal of any health care financing system is to protect the consumers against financial risk of health care expenditure, which can skyrocket beyond the reach of the average income earner. The solution is to pool the consumers' risk because the risk pooling in accordance with the multiplication theorem of probability analysis will reduce total risk and therefore the risk insured per insured. This is the foundation for all types of insurance.

The study outlined two options for health care insurance: (1) social insurance and (2) private actuarial insurance. In the social insurance system, risk is pooled or shared equally among the whole population covered by the insurance contract, whereas in private actuarial insurance people pay premiums according to which risk group they belong. People in a high-risk group pay a higher premium than those belonging to a low-risk group. The distinction between bad and good risk is summarised below. Because such a large percentage of the population falls into the bad risk category, the two studies conclude that for Zambia the best option for health care financing is social insurance.

Good Risk	**Bad Risk**
Healthy people	Sick and disabled people
High (income) wage earners	Low (income) wage earners
People without dependents	People with dependents
Young people	Elderly people
Employed people	Unemployed people
People in a safe working environment	People in dangerous jobs

(Source: Arrow's 1963 article on welfare economics and medical care)

[19] Mwanza A. (1996) inquiry into the insurance sector, Zambia, field surveys/interviews, University of Zambia, Lusaka, Zambia.

6.3 Savings, Credit or Insurance

With recognition that low-income people have a limited understanding of insurance, during the FGDs research assistants provided an explanation about risk-managing financial services. This educational component gave participants basic information of how savings, credit and insurance work as coping mechanisms. The content included examples of informal practices of the financial services such as *chilimba* for savings, *kaloba* for credit and funeral funds for insurance.

Following the explanation, preference ranking was done to see how the groups would compare the three risk-managing financial services.

Table 22 Savings, Credit and Insurance: Focus Group Rankings

Risk-managing Financial Service	No. of As	No. of Bs	No. of Cs
1. Savings	9	2	1
2. Emergency loans	3	8	1
3. Insurance	2	2	8

The results were fairly consistent, with most groups ranking savings and credit first and second respectively. The general conclusions from these discussions are that savings and credit are more flexible than insurance, and can potentially respond to a variety of different needs: "Insurance cannot be split insurance to solve different difficulties." They also did not like the idea that they would not have anything to show for their premium payments if the risk even did not occur.

Savings, particularly the "under the mattress" variety, is preferred to credit because it is immediately accessible and people do not like the burden of repaying loans: "Savings have no repayment obligations, hence no pressure." But for savings to be an effective coping strategy, people need to have some surplus funds, and they need to be disciplined to squirrel it away. For persons who cannot put aside money, "savings would not be adequate to settle major household or business difficulties, which would suggest that borrowing is the best solution." Which returns the discussion to the repayment pressure problem: "An emergency loan would be useful, except that like any ordinary loan, it too must be repaid, adding on to the existing household or business pressures."

There was also a widely held opinion that low-income persons would be better off putting money into their businesses: "I would rather invest money to boost my business, instead of considering insurance which I will only benefit from when the event occurs." These discussions did not rule out insurance as a coping strategy, but they suggested that it is only relevant for a limited number of specific purposes: "It can pay for big expenses, which are normally difficult if not impossible to settle within the normal household cash flow."

6.4 Is there Potential Demand for Microinsurance?

If there is potential demand, for what risks and under what circumstances is insurance an appropriate coping mechanism? Based on the evidence presented above, this section analyses the types of risks and the conditions for which there might be ample demand for formal insurance.

6.4.1 Types of Insurance

The findings indicate that the main concerns for most respondents were death and illness, which suggests that life and health insurance might have some potential demand.

Life Insurance

Since one out of every three households had experienced a death in the past 18-months, and all had contributed to the funerals of relatives, friends and neighbours, most low-income households are likely to feel vulnerable death risk, especially to the accidental or untimely death of a breadwinner. Indeed, the evidence from all three research methodologies bears out this concern.

Coping mechanisms, especially drawing on savings and depending on the generosity of others, were common in the event of death. Funerals costs are generally covered by piecing together resources from a variety of sources. The emergence of informal funeral funds in particular suggests a potential demand for life insurance because it demonstrates a willingness to accept preventative risk pooling, at least for death risks.

Any life insurance product for the low-income market would be wise to **mimic the strengths of informal schemes**, such as expedient claims processing and the use of groups to control adverse selection and deter premium lapses. A formal insurer should then be able to position itself well vis-à-vis funeral funds by providing greater value.[20] With a larger risk pool and greater economies of scale, for the same premium amount a formal insurer might be able to provide a benefit that is roughly 5 to 10 times larger than the payouts in most informal schemes, especially if it could rely on existing distribution channels, such as market associations, church groups and MFIs, to minimise transaction costs.

Given the favourable perspective on savings, and the attractiveness of contractual savings, there may be potential demand for an **accumulating value policy** such as endowment or whole life. By building value, this type of policy would deflect the criticism that insurance is just another expense that can be avoided, because at the end of the day, if the insurable event does not occur, policyholders have something to show for their premium payments.

If such a product allowed policyholders to borrow against the accumulated value, it would help overcome concerns about the inflexibility of insurance. Even though it would be a life insurance policy, and would only make a payout in the event of death, if policyholders were struck by a health care emergency, for example, they could use the policy as collateral to help pay the bills.

While a product that packaged together savings, credit and insurance would help overcome many obstacles, it would still have difficulty penetrating the poorest segments of the market, which indicated that they had difficulties in saving on a regular basis. It may also not be attractive to entrepreneurial persons who are less risk averse than the general public and prefer to plow excess cash back into their enterprises. For different reasons, both of these market segments prefer not to adopt a preventative approach; for these groups, emergency loans would probably be the most appropriate risk-managing financial service.

[20] While an average funeral in a low-income household cost between US$132 and $158, the benefit payout for most of the market funeral funds only covered 10 to 16 percent of these costs.

Health Insurance

The potential demand for health insurance is less clear. Despite the high frequency of household illnesses—averaging 7 short and 1 long illness during an 18-month period—the costs of treatment and medication were generally low, especially for those who were willing to bear the poor conditions in the government clinics. Unlike death, which is bound to happen at some point, illness is much more unpredictable. Given the prevailing attitudes toward insurance (particularly health insurance), poor households may be more interested in a health care savings scheme than health insurance, especially if the scheme had a real positive return and was designed with small and frequent payments like a *chilimba*. In fact, health care savings could even be marketed through existing *chilimbas*. If expenses are paid directly to the pharmacy or clinic, an MFI may be able to negotiate a discounted rate for savings scheme participants.

Based on an analysis of the risks and coping mechanisms, this research suggests a possible demand for three types of health insurance. First, households at the upper end of the low-income market, who would pay for **private clinics** anyway, might be interested in a scheme that allows them to access better quality health care more affordably. Since their health care costs are higher and they are better educated, they might be more receptive to health insurance. A health insurance plan marketed and delivered through private clinics is unlikely to reach poorer segments of the market initially, but that might change depending on the conditions in government clinics and the effects of social marketing.

Another possible health insurance niche could be **prescription insurance**. Although people complained about the quality of care in government facilities, the only financial complaint was about the high cost of medicine—and this was a common concern. Again, such a scheme may be able to negotiate discounts if the insurer pays the pharmacy directly.

Third, a health insurance feature that might be attractive, especially to female entrepreneurs, is a **caretaker or lost income allowance**. This stipend is intended to offset the short-term loss of income caused by being away from one's business, either because the entrepreneur was sick or because she had to care for others. Unfortunately, this type of benefit would likely cause significant over-usage problems and would be difficult to provide on a sustainable basis.

Property Insurance

While theft, and to a lesser extent fire, were identified as risks for households and businesses, probes on frequency of occurrence and the associated losses indicated that these were generally not major concerns. In fact, most respondents had very few assets that would be worth insuring. Until the situation changes—if theft or fire become more frequent occurrences *and* the households have accumulated more assets—property insurance will probably not appeal to a large enough segment of the low-income market to make it viable.

6.4.2 Delivery and Design Issues

Besides the type of products that might be in demand, this research provides some insights into delivery and design issues, including marketing, claims processing, and premium payments.

Marketing and Sales

The lack of familiarity with insurance, social biases, and a few negative perceptions will definitely inhibit demand. To serve the low-income market, insurance providers will have to stimulate demand through good promotion strategies that educate the market and increase the social acceptance of insurance as a legitimate coping mechanism. This type of **social marketing** campaign would use their existing coping strategies, especially reciprocity and mutual support, as a frame of reference to explain how insurance works. Sales techniques should also help customers understand that insurance could offer better coverage than that provided by informal coping strategies.

Another approach would be to **segment the market** and initially target clients that are more receptive to insurance, particularly the less poor and better-educated clients. If an insurance product is well received by this segment, then it will be easier to market it to other market segments.

One of the most effective sales techniques, **testimonial marketing**, uses case studies, quotes and endorsements from actual persons who have benefited from the insurance products to tell their stories. Prospective customers can relate to them and their situation.

By highlighting the experiences of persons who are reasonably representative of the target market, it promotes a broader social acceptance to legitimise insurance.

Claims Processing

Marketing will not be effective if the insurer does not deliver. Since complaints about delays in processing claims were common and strongly felt, demand could be stimulated by attacking this issue head on, by guaranteeing payment within three days (or whatever period of time market research concludes is acceptable). The insurer would then be able to garner favour in public opinion, and generate positive word-of-mouth marketing, by exceeding expectations, for example paying out benefits in 1 or 2 days.

Premium Payments

The seasonality analysis of household cash flow shows that equal monthly or weekly instalments may present a problem. Significant innovations are required to **tailor the premium payment** schedule to the household's cash flow. For example, if payments are required on a monthly basis, it might be wise to recalculate 12 instalments into 10 or 11 and not require a payment in January and perhaps February, or to allow policyholders to decide which month or months they want to skip.

With an uneducated, low-income market, there is a high chance that the insurer will experience late payments or **lapsed policies**. The insured event is then bound to strike former policyholders who will want to make a claim. When claims are rejected because the policies had lapsed, the insurer will probably experience public relations problems that will cement the negative perceptions widely held by the skittish market. The challenge, therefore, is to develop payment mechanisms that dramatically reduce the likelihood of lapsed policies.

One payment approach that is common among informal funeral insurers in South Africa is to issue a **coupon book** to policyholders. Whenever they have surplus cash during the month, clients stop by the funeral home to make a payment, which is then stamped into the coupon book. As long as the policyholder is current by the end of the month, then the policy remains in force (Roth 2000).

CHAPTER 7: CONCLUSION

By learning about the vulnerabilities and coping strategies of microentrepreneurs, it is possible to contribute to the product development process for risk-managing (and other) financial services. This chapter begins by summarising the major implications for microfinance institutions that emerged from this research. It concludes by highlighting key questions that remain outstanding.

7.1 Implications for MFIs

Pulse's clients indicated that the two main reasons why they would divert funds from the business are: a) to pay the funeral expenses of a household member and b) in the event of illness to oneself. These results suggest that, if MFIs could help clients cope with these risks, the organisations would provide a valuable service that would also translate into improvements for their microenterprise loan portfolio.

One of the more striking findings from this research is that economic stresses such as buying food, paying rent and sending children to school were nearly as pressing as the shocks associated with death and illness. Perhaps this finding should not have come as a surprise: the primary source of income for 92 percent of the households in the sample was from informal sector businesses. A microenterprise does not produce a reliable source of income on a daily or monthly basis. Irregular incomes sometimes make it difficult for households to meet regular expenses. Yet, since these costs occur regularly and predictably, insurance is not a possible intervention or solution. For these economic stresses, low-income households need financial services, such as savings accounts and consumption loans, which enable them to manage their cash flows better.

This section provides some preliminary recommendations regarding savings, credit and insurance products that emerge from this research.

7.1.1 Savings

Savings is by far the preferred method for coping with risks and other economic stresses, but the two primary savings methods—"under the mattress" and through savings groups—have significant limitations. Interestingly, Pulse's savings mechanism, the loan "insurance" fund (LIF), is not perceived as a savings service; instead it is just a cost of getting a loan.

To improve low-income households' ability to manage risks, MFIs should consider offering savings services that are independent of their lending activities. The advantage of **de-linking savings and lending** is that it opens the door to provide savings services to persons who do not want a loan, assuming that this complies with the regulatory environment. The disadvantage is that savings-only transactions will increase the costs of providing the services.

If the organisation did not have a savings requirement for its loans, it may have more success in piggybacking the two services to **reduce transaction costs**. For example, an education savings product would probably be accessed by 40 to 50 percent of Pulse's clients. This contractual savings product would allow clients to determine how much money they would require in January to pay for school fees, uniforms, etc., and then calculate a weekly deposit that would allow them to save up to that amount. The easiest means of making their deposits would be to combine the savings and repayment transactions, but LIF clouds the picture. Clients will be reluctant to make education deposits because they would fear that these savings would be treated in the same way as their LIF savings, which secures not only their own loan but also the loans of their group members.

Based on their current behaviour, there would probably be a demand for two types of savings products. The first is a completely liquid facility or a **passbook savings account** that would allow clients to deposit and withdraw as needed. In effect, this product would try to replace the "under the mattress" savings by providing greater security and reducing the temptation to use the funds by making them just a little bit harder to reach. If the MFI wanted to use this product to meet clients' needs for cash flow management, the product should have low or no minimum balance requirements and it should be locally available on a daily basis. Unfortunately, a passbook savings account is the most difficult and most expensive savings product to offer. To provide this service, it may be worth exploring the use of technology, like smart cards and ATMs, which may pay for themselves in lower transaction costs and reduced vulnerability to fraud (see Campion and Halpern 2001).

The second product would be a **contractual savings** facility that imitates the attractive characteristics of savings clubs, including discipline and the temporary inaccessibility of one's funds. This "targeted savings" approach would be particularly effective for education savings, as described above, but it may also work for health care and other emergencies if an acceptable definition of an emergency could be worked out.

This research suggests that Pulse's clients would be particularly sensitive to three characteristics of a savings account: **return, transaction costs and security**. Contractual savings would allow the organisation to market a high interest rate but charge fees or drop the rate for early withdrawals or missed deposits. Regarding transaction costs, besides the comments above, since Pulse operates in urban areas with reasonably low crime rates, it might be a good environment to experiment with savings collectors (although the Bank of Zambia might not be too enthusiastic about it). But the biggest obstacle facing Pulse as a deposit mobiliser may be image, especially if it tried to reach out to non-clients. Even if Pulse creates a regulated financial institution, since its roots are in the NGO world, it may have difficulty giving the appearance of a rock-solid place to save one's hard earned cash.

Finally, women appear to be better savers than men. Women are more likely to have a bank account and to participate in a chilimba, while men are more likely to invest excess cash in the business. Marketing of any savings products should therefore recognise that women might be more receptive.

7.1.2 Loans

Regarding the MFI's loans, there are three major implications. First, the existing microenterprise loan product could be improved by tailoring it to the businesses' (or households') cash flow and recognising the clientele's vulnerability. Second, there appears to be a strong demand for a parallel loan product, for emergencies, consumption or to take advantage of business opportunities. Finally, a housing loan might make a significant contribution to reducing vulnerability.

Existing Microenterprise Loan

Over the past few years, Pulse has taken major strides toward improving its core microenterprise loan product, including lowering the savings requirement, reducing the group size, and removing the rigidity of the loan amounts and terms. Pulse is also trying to train field staff to make credit decisions based on the performance of the business, rather than just being loans administrators. Clients have appreciated these changes, resulting in improved client retention and overall growth.

This research has raised some additional issues related to the design of the microenterprise loan that Pulse, and other MFIs, should consider:

- *Seasonality*: The seasonality analysis clearly shows major fluctuations in household cash flow depending on the month. Yet Pulse's microenterprise loan instalment is standardised across the loan term, which will be difficult to repay during lean months like January. A flexible or customised repayment schedule may be worth testing to see what affect it has on portfolio quality and customer satisfaction (see Frankiewicz 2001).

- *Accommodation of Emergencies*: On a related note, the existing product does not accommodate households that experience economic stresses. Given the prevalence of risks in low-income communities, a strict or disciplined approach to repayment management may have adverse consequences in the event of a household emergency. Such accommodations might include appropriate refinancing and rescheduling policies. Repayment holidays built into the loan product may also be necessary when targeting the poorest clients.

- *Market Segmentation*: The socio-economic data collected in this research reveals that Pulse serves a diverse market with varied needs. There are some well-educated borrowers with strong businesses and positive cash flows; and there are some very poor clients who are living from hand to mouth. Yet the same core loan product is used for all clients (although the product does allow for individual loans after repaying three group loans). Further thought to the needs of particular market segments may result in improved service.

Emergency Loans, etc.

While a microenterprise loan may help low-income households reduce their vulnerability by boosting income and assets, it is not an effective means to manage risks. Microenterprise loans are not usually available when they are most needed, they require group guarantees, and there are several weeks of meetings and savings requirements before one is eligible. And while one is repaying a microenterprise loan, Pulse (and many other MFIs) do not allow clients to take out an additional loan until they have repaid the first one.

To cope with emergencies, in the event that someone has not built up sufficient savings reserves (or prefers not to deplete them), MFIs should consider offering a parallel or emergency loan product that allows existing borrowers (or the broader low-income community) to quickly access an additional chunk of money. Parallel loans would not necessarily be limited to paying for emergencies; they could also be used for consumption smoothing or even to take advantage of business opportunities. As a multi-purpose loan, it would be in great demand, especially if it was immediately available at a reasonable price and without pressing concerns about asset seizure.

An emergency loan product needs to respond to crises without over-indebting clients, and without worsening the MFI's portfolio quality by throwing good money after bad. There are three basic approaches that an MFI might take toward controlling the credit risk of an emergency or parallel loan product. First, the MFI could rely primarily on the client's **credit history as a collateral substitute**. Borrowers who have repaid 3 or 4 loans without a late payment could be eligible for a parallel loan no questions asked (as long as the loan amount is below a certain threshold). The logic of this approach is that the service is so valuable that clients would strive to maintain their good standing and retain eligibility for future parallel (and microenterprise) loans. This arrangement creates a strong customer loyalty incentive, however the MFI will have a limited impact in helping low-income households to manage risks since only a handful of clients would be eligible.

The second approach to controlling credit risk is to require a **guarantor or co-signer**. Since vulnerable persons are already calling on the economic support of family and friends, a guarantor arrangement might be a way of institutionalising family or social obligations without upsetting the cash flow of the assistance provider. The challenge to controlling credit risk through social collateral is whether the legal system can easily and cost-effectively enforce the contract. If that challenge can be addressed, then the MFI would be able to extend emergency or consumption loans more broadly and provide a more valuable risk management service in the community, not just for existing borrowers.

Third, credit risk for an emergency loan can be managed through non-traditional collateral, such as a **pawn lending** arrangement with jewellery or other small, valuable items. Since only a small percentage of respondents indicated that they save in-kind, further probing would be required to see if Pulse's clients have assets that they would be willing to use for this purpose. For this type of collateral to work, the MFI needs the expertise to assess their value and a secure means of storing the items until the loan is repaid. Since appliances seem to be the most likely type of collateral in Zambia, a pawn-lending facility would also require a retail outlet to sell unclaimed items. If these conditions could be met, then the MFI would not require other credit risk controls, such as short loan terms or frequent repayments, which would make a pawn loan extremely versatile.

Before developing an emergency or parallel loan product, it would be useful to collect more information about the **characteristics of other credit facilities** available to low-income households, and use focus groups to assess the advantages and disadvantages of those characteristics. This research identified at least four informal credit services available in the low-income market: customer credit from microenterprises, "pay slow" from formal businesses, salary advances, and moneylenders. Moneylender loans in particular probably have many characteristics that are worth imitating.

It might be possible to help solve the problem of customer credit and extend consumption loans for cash flow management by **partnering with local shopkeepers**. A few MFI borrowers indicated that they have problems with non-repayment of customer credit. The MFI wants to provide financial services to help low-income persons better manage their irregular cash flows, but doing so could create large credit risks and transaction costs. If they work together, the MFI might be able to develop systems to improve the shopkeepers' lending efforts, such as loan pricing, credit screening, contracts and loan monitoring, which would also improve the shopkeeper's business by reducing loan losses and increasing sales. Shopkeepers would effectively work as agents for the MFI; the MFI would provide loan capital, training, documentation, and assistance in delinquency management, but the two partners would share the risk. This arrangement might be a boon to the MFI as well because the shopkeepers' familiarity with their customers would reduce information asymmetries, and their proximity to the clients would improve customer value and minimise transaction costs, all without hardly any additional overhead expenses.

Home Loans

Finally, this research provides a little bit of insight into the possible role of homeownership in reducing vulnerability. The link between owning a home and being less vulnerable is probably not a causal relationship; instead, both have similar roots—i.e., persons with larger incomes are less vulnerable and are more likely to own their homes. Yet home ownership does solidify a sense of security that reduces one's vulnerability. Not only do tenants worry about where their next rent payment will come from, but they are also concerned about whether the landlord will raise the rent or kick them out of the house. If the MFI promoted home ownership by offering long-term loans to buy or build houses, it could help customers accumulate assets while reducing their vulnerability.

7.1.3 Insurance

The findings from this research suggest that the development of insurance products may not be the top priority for many microfinance customers. Given the target market's lack of familiarity with insurance, and the undercurrents of negative perceptions, developing and delivering demand-driven insurance products will be an uphill challenge. The market may be **more receptive to targeted savings** products for risk-managing purposes than insurance.

As with *chilimbas* for savings and *kalobas* for lending, if an MFI decides to develop a microinsurance product, an important first step is to **look closely at informal funeral**

funds that low-income people have designed for themselves and imitate the positive features.

Certainly an education or **social marketing** campaign is needed to help low-income persons to understand how insurance works, and to demonstrate the potential value of insurance. While education is a starting point, it is insufficient if clients do not encounter **positive practical experience** with insurance. Although MFIs may be tempted to test the microinsurance waters by starting with a credit life product—which covers just the outstanding balance of the loan—that may not be the most productive entry point. Since credit life essentially benefits the MFI more than its clients, if this type of product is the clients' first exposure to insurance, it could reinforce their ambivalent-to-negative perspective.

Furthermore, life insurance just for borrowers—even if the beneficiaries receive a payout besides the loan coverage—is also probably not sufficient to generate a broadly favourable public opinion of insurance. Since the customer has to die before experiencing any benefit, the MFI will only derive public relations value if the surviving spouse is or becomes a customer, and indirectly through any gossip that spreads through the community. For microfinance clients to experience the usefulness of an insurance policy without having to die, the policy should cover a number of people.

Given the fuzzy boundaries of what constitutes an extended family, and the fact that persons are obligated to contribute to the funeral costs of distant relatives, friends and neighbours, an important challenge will be to decide who the insurance policy covers. By **covering many people under one policy**, it creates pricing complications and opens to the door problems of screening, adverse selection and fraud. Yet, if a policy covers a number of people, then policyholders are more likely to benefit from their insurance experience and develop a positive attitude toward this financial service, especially if the claims process is quick and hassle free. One possibility is to develop a "friends and family" policy that allows persons to identify the ten or fifteen people whose funerals one would most likely have to contribute to, and then specify the contribution amount one would be expected to provide for each person. The premium rate would then be based on the total sum of coverage under the policy, as well as perhaps the ages and genders of the persons on the list.

If the MFI wants to enter the insurance field to provide a customer service, rather than as a potential money making exercise, there is an **alternative to the preventative risk pooling** approach. Rather than taking premiums upfront and then paying claims out of an insurance reserve, the organisation could deduct a certain amount from each customer's savings account to pay for claims on an as-needed basis. This approach, which is common in the Philippines, formalises the existing methods of reciprocity and mutual support, but because it is done over a bigger risk pool it reduces the burden on individual households (see Soriano *et al* 2002).

7.2 Unanswered Questions

As a relatively new type of development initiative, there remains much to learn about risk-managing financial services. With a focus on the demand side of the equation, this final section highlights a few outstanding questions that emerged from this research.

Voluntary Access: Although in principle Pulse clients have access to credit, savings and insurance, the current arrangement does not provide insights into how low-income households might use these three financial services to manage risks. Clients do not think of LIF as savings. The credit life cover protects the MFI more than the borrower, and borrowers are not fully aware that they have insurance coverage. More importantly, both services are mandatory, so they do not provide information about demand. To really understand the issue of demand, it is necessary to observe actual behaviour in an environment where clients have voluntary access to all three types of risk managing financial services.

Savings vs. Credit: Because this research focused primarily on insurance, it did not explore the motivations that behind a customer's preference for using savings or credit for risk management. It would be very useful for an MFI to understand under what circumstances and what type of person would prefer to draw down on savings versus borrowing against future earnings. Rutherford's (2000) analysis that savings and credit essentially boil down to the same thing—either saving up or saving down—may oversimplify the equation. In practice, there appears to be a significant psychological burden associated with borrowing that affects customer demand. A better understanding of the cause and effect of this burden will help MFIs to improve the design and marketing of both products.

Crowding Out? While formal insurance, at least life insurance, could help low-income households to manage risks more efficiently and effectively, what would the communities lose in the process? Would formal risk-managing financial services crowd out informal coping mechanisms, such as reciprocity and savings clubs? Although they are imperfect solutions, the reliance on social assets has ancillary benefits at the community level that would be unfortunate to lose if formal insurance became widely available and accepted. Is there a way to retain the benefits of mutual support behaviour while accessing the efficiencies of formal insurance?

Former Clients: An important limitation of this research is that it did not interview any former Pulse borrowers, and delinquent clients may have been under-represented in the sample. Since people who have dropped out or who are having difficulty repaying may be more vulnerable than the sample, this research may underestimate the risks to which microentrepreneurs are exposed. In duplicating this research in other markets, it is important not to overlook these segments of the population.

Rural Risk Management: Presumably rural areas are vulnerable to a whole host of additional risks that are not common in urban areas. Additional research is required to examine rural risks, coping strategies, and to assess the potential role for risk-managing financial services in rural markets.

Cash Flow Data: How irregular is the irregular income generated by microenterprises? How do other sources of income contribute to household expenditure? A greater understanding of household cash flow could be extremely valuable in designing both microenterprise loans as well as consumption or emergency loans.

Effect on Child Labour: Training children in to work in the household enterprise was identified as a minor coping strategy, particularly to reduce vulnerability to employee theft. Children are also employed in microenterprises to fill in if the parent is sick or has obligations that take the entrepreneur away from the business. Because of this coping strategy, children may be going to school less; in addition, fewer paid jobs are created. Since these are not desirable outcomes, further research is required to see if there might be alternative means to controlling the risks of employee pilfering and being the sole entrepreneur.

Emergency Loan Collateral: In section 7.1.2, three different collateral options are proposed for emergency loans. Further analysis of these three options would be helpful to determine the conditions under which one would be more effective or preferable to the others.

Business Skill Training: Most of the business-specific risks, such as increasing competition and poor demand, are best addressed through non-financial services. Since many MFIs have moved toward a more minimalist approach to microfinance, it would be useful to identify and document effective partnership models that link the providers of financial and non-financial services to create a win-win-win scenario for lenders, trainers and entrepreneurs.

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Mondoloka, Mary, Director, Madison Medical Insurance, Lusaka, 27 August 2001.

Munsaka, Abonny, Internal Auditor, Pulse, Lusaka, 9 July 2001.

Sakala, Bethel, Operations Manager, Pulse, Lusaka, 9 July 2001.

Zimba, Solomon, Finance Manager, CETZAM, 20 August 2001.

APPENDICES

Appendix 1: Demographic Characteristics of the Respondents

<table>
<tr><th>Characteristic</th><th>Description</th></tr>
<tr><td>Gender</td><td>Historically Pulse has maintained a gender ratio of roughly 3 female borrowers for every 2 men. In the structured interviews, using random sampling the respondents interviewed were 57 percent female and 43 percent male.</td></tr>
<tr><td>Marital Status</td><td>Of the 200 respondents, 68.5% were married, 8.5% were single, 7.5% separated, 7.5% divorced and 14% widowed.</td></tr>
<tr><td>Age Distribution</td><td>The typical Pulse client is between 30 and 39 years old. Pulse offers the credit services to very few old people; only 4.5 percent of the sample was over 50 years old.
<table><tr><td>Age (years)</td><td>20 to 29</td><td>30 to 39</td><td>40 to 49</td><td>Over 50</td></tr><tr><td>Percentage of Sample (%)</td><td>27.5</td><td>41.0</td><td>27.0</td><td>4.5</td></tr></table></td></tr>
<tr><td>Highest Level of Education & Literacy</td><td>The typical education level of respondents was between Primary and Secondary; which means that the majority had attained education that enable them to read, write and communicate in the official language.
<table><tr><th></th><th>Frequency</th><th>Percent (%)</th></tr><tr><td>None</td><td>10</td><td>5.0</td></tr><tr><td>Primary</td><td>91</td><td>45.5</td></tr><tr><td>Secondary</td><td>88</td><td>44.0</td></tr><tr><td>College</td><td>10</td><td>5.0</td></tr><tr><td>University</td><td>1</td><td>0.5</td></tr></table>
Results on Literacy (measured in terms of ability to read and write) confirmed this. Out of the 200 cases in the structured interviews, 49 percent indicated that they can easily read and write; 39 percent with difficulty and only 15 percent could not read or write at all.</td></tr>
<tr><td>Average Size of a Client Household</td><td>The average size of a respondent's household is 6.2. Household size mostly ranged from 5 to 9. The extreme figures were 1 and 18, being the minimum and maximum respectively.</td></tr>
<tr><td>Dependency Levels</td><td>The average household has at least one dependent who is not a member of the immediate family. Of the 200 structured interview respondents, 61 percents had dependents.</td></tr>
<tr><td>Critical Household Expenses</td><td>The typical household had some children attending school. Most households struggle to meet school fees and related expenses. Those who were living in rented houses, indicated that rentals is another crucial expense.</td></tr>
<tr><td>Household Economic Head-ship</td><td>The typical households are jointly (male-female) headed (68.5 percent of the 200 cases). Female-headed households were about 27.5 percent usually as a result of as divorce, separation or death of spouse.</td></tr>
</table>

Ownership and Type of Dwelling	Forty-nine percent of respondents owned their own houses, while 51 percent lived in rented houses. Most houses were electrified, built with bricks and had either a roof with asbestos or iron sheets.
Main Source of Income	Ninety-two percent of respondents said that their microenterprises were the main source of household income, 6 percent indicated own salary, and only 2 percent indicated spouse's salary
Type of Businesses	Most respondents are in general trading such as selling foodstuffs and groceries.
Gross household income	Thirty-five percent had gross household income with the range of ZMK 250,001 to 500,000 (US$ 66 to 132). Fifty five percent had incomes below US$132.

During FGDs, collection of background data from the respondents included local definition of the poor, not so poor, and better off. Using probing questions, the definitions focused on the following characteristics:

- Type of house (accommodation)
- Type of business
- Well being of children (physical appearance and type of schools)
- Number of meals consumed per day
- Business and household assets
- Affordability in terms of medical expenses
- Type of savings facilities accessed

From FGDs, using their own words, the following is a summary of the description of three categories of people in the targeted communities.

The Poor

The poor constitute almost half of the people living in the targeted communities. It is usual that neither the husband nor the wife has steady employment, nor do they engage in a regular income-generating activity. They are unlikely to qualify for a Pulse loan mainly because the group self-selection process screens them out. Compulsory savings is also barrier to access the loans because they cannot raise required savings. They find it very difficult to save. Some poor women have joined or formed *chilimba* groups with very small contributions.

The poor have a lot of children. They own a small house, or rent one or two rooms. In most cases they live in houses plastered with mud, without electricity and with communal toilets and water sources. They are usually looking for cheaper accommodation as they cannot afford the rent and they are constantly concerned about eviction.

The children look unhealthy, dirty and sad, and are always in tattered clothes. Some children look like they are suffering from malnutrition and are usually begging for money from people on the streets. Most of school age children are not in school, as the poor cannot afford the fees and uniforms. In some cases, their children go to community schools run by

NGOs. The poor have serious problems affording medical expenses. Sickness is highly prevalent among the household members and most illnesses go untreated for a long time.

Average: Not So Poor

Average (not so poor) households constitute the second largest proportion of the households in the compounds. They usually run microenterprises, which make them eligible for Pulse loans. Their businesses range from simple manufacturing to general trading. In some cases, both the husband and wife run businesses. In some cases the husband or the wife has a low paying but steady job (usually the husband), which gives the household a regular income, but the main source of income is usually the business.

The average household makes some meagre savings for precautionary purposes. This savings is usually in two types, saving at home and saving in *chilimba* groups. A typical household has a few assets such as a black and white television, radio and a cooker. The household can usually afford three meals a day, but not necessarily a well-balanced diet. Due to the government house policy in 1997, in which most houses were offered for sale at low prices, the average household owns their house, and sometimes rents out a room or two. Those who did not own houses usually struggled to afford rent.

The physical appearance of the children is not very bad. Their children usually go to government schools, but the households struggle to afford education expenses. Additionally, they struggle to afford medical costs; they go to government clinics where they only receive prescriptions, but they have difficulty paying for the medicine.

Better Off

Rich households usually run small to medium businesses that employ workers. Often, the husband has a formal job while the wife runs the business. In some cases, both the husband and wife are employed in the formal sector. Better off households have multiple source of regular income (e.g. salary, a shop, house on rent, etc.). Most consider loans from MFIs such as Pulse to be too small and do not like the group lending methodology. They are always looking for bigger loans. They also have formal savings accounts at a bank.

Food is not a problem. They are able to have 3 well-balanced meals a day. Their children look happy and healthy, and go to good schools. The children learn English at young ages because they attend good preschools.

The rich own good houses with many bedrooms, private toilets and electricity. Their houses are plastered, painted and, and the yard is fenced. Rich households have high quality radios, colour TVs, furniture and refrigerators. Some are connected to satellite TV. They may own a vehicle and have communication facilities such as land phones and cellular phones. The rich also hire domestic servants. For health care, they go to private clinics.

Appendix 2: Responding to Death Risk— CETZAM's Experience

CETZAM is one of the biggest microfinance institutions in Zambia. In 1999, CETZAM experienced a dropout rate of 25 percent, which is similar to other programs in the region but higher than its 15 percent target. Probing through the exit surveys indicated that most clients found it difficult to meet their loan obligations due to illness, a funeral in the family, or business problems.

Funerals were identified as the biggest problem, so CETZAM carried out an in-depth survey to verify this and ask the clients how CETZAM could help them. The results indicated that most clients wanted help to pay for funeral expenses.

CETZAM decided to introduce a Funeral Benefits Insurance Scheme managed by NICO Insurance Company, a local insurer. The scheme is called NTULA, which means, "to lift off my burden." NTULA was introduced at the beginning of October 2000 and made mandatory for all CETZAM clients. The initial response was positive as clients felt that insurance scheme would solve their pressing problem.

According to CETZAM's Finance Manager, "NTULA is not only beneficial to our clients but also to CETZAM since it protects the loan portfolio and reduces the client exit rate."

As at July 2001, 1,740 clients were registered on the scheme, and 159 clients had benefited through claims. CETZAM acknowledges that there was a misunderstanding during the initial days of the scheme regarding the insured period. Some clients had problems understanding that insurance is specific to the insured period; if the event occurs outside this period there are not benefits. Some clients felt that it was unfair that they would not benefit if the event occurred outside the insured period. This experience highlights the importance of client education when introducing an insurance product to low-income households.

Initial experiences require some adjustments to the scheme because it does not specify who constitutes a dependent. Clients took advantage of this arrangement resulting in a lot of early claims. CETZAM and NICO Insurance have acknowledged the need to define who is a dependent, but this raises a complex debate given the structure of Zambian households. An insurance policy that restricts coverage to children is likely to be unattractive.

Though CETZAM's Funeral Benefits Insurance scheme is still in its infancy, the pricing seem to be working well for the clients. Monthly premium of US$1.20 covering 6 people seem to be within the means of the clients. CETZAM's benefit payout of ZMK 500,000 (US$132) corresponds well with average cost of funerals.

CETZAM's "NTULA"

Funeral Benefits Insurance Scheme

SCOPE OF COVER
Death of a client and up to five dependents.

PURPOSE
To lessen the financial burden of members for costs incurred during family bereavement, i.e. coffin, food, transport, etc.

BENEFITS

ZMK 500,000 (US$132) payable on death of a CETZAM member and/or any registered dependent.

ZMK 250,000 (US$66 for a registered dependent who is under 14 years.

PREMIUM
ZMK4,500 (US$1.20) per month payable through CETZAM loan repayment process.

INSURER
NICO Insurance Zambia Limited

CLAIMS PROCEDURE
Upon occurrence of death of a member or registered dependent, the following should be followed:

1. The member (if the registered dependent has died) completes an appropriate a form obtainable from the nearest CETZAM/SIS Insurance agency office. (In the even t of a member's death, the spouse or one of the registered dependents completes the form.)
2. The completed form and a death certificate from an authentic medical centre are lodged in at the CETZAM/SIS Insurance Agency Office. (Where death occurs out of city limits, a letter of confirmation of death from the local authority, e.g. District Administrator, Local Chief should be obtained and handed to CETZAM/SIS office claim form).
3. The claim form and death certificate should be lodged with the CETZAM/SIS office within 14 days of occurrence of death.
4. Claim to be authenticated by authorised CETZAM/SIS official.
5. Claim to be paid within **two working days**.

ADVANTAGES OF THE SCHEME
1. No medicals are required to qualify for the benefits
2. Quick claim settlement
3. Claim paid even when a member is "loan resting"
4. Protects members from borrowing to pay for funeral expenses.
5. Protects members' savings from being used up for funeral exp enses

Appendix 3: Structured Interview Questionnaire

Understanding the Demand for Risk-Managing Financial Services: Case Study from Zambia

Individual Questionnaire

DATE OF INTERVIEW:____

INTERVIEWER:____

Section 1: Demographic Characteristics

QNo.	Question	Responses	Skip to
01	Indicate whether the respondent is a member of an MFI or not.	[__] 1. Current MFI client [__] 2. Former MFI client [__] 3. Never been an MFI client	
02	Indicate the sex of the respondent.	[__] 1. Male [__] 2. Female	
03	Are you the Head of the Household?	[__] 1. Yes [__] 2. No >>>	If No, Go to Q5
04	If No, what is your relation to Head of Household	[__] 1. Spouse [__] 2. Grandparent [__] 3. Parent [__] 4. Close relative [__] 5. Non relative [__] 6. Child	
05	What is your current marital status?	[__] 1. Single [__] 2. Married [__] 3. Separated [__] 4. Divorced [__] 5. Widowed	
06	How old were you at your last birthday?	[ ]	
07	What is the highest level of Education you have attained?	[__] 1. None [__] 2. Primary [__] 3. Secondary [__] 4. College [__] 5. University	
08	Can you read and understand a newspaper or letter easily, with difficult or not at all?	[__] 1. Easily [__] 2. With difficulty [__] 3. Not at all	
09	Indicate the following household indicators for the respondent. Total Household size Number of children Number of Dependents	 [ ] [ ] [ ]	
10	What is your main occupation?	[__] 1. Self employed; running a microenterprise	

		[__] 2. Employed [__] 3. Employed, but also in category 1 above	
11	If married, what is your spouse's occupation	[__] 1. Self employed; running a microenterprise [__] 2. Employed [__] 3. Employed, but also in category 1 above [__] 4. Doing nothing	
12	What is your main source of household income?	[__] 1. Microenterprise [__] 2. Spouse [__] 3. Children [__] 4. Salary/Wage [__] 5. Other specify____________________	
13	How many people in your household are working or engaged in any income generating activity? Interviewer's Note: This should include the respondent and spouse if respondent is married	[ ]	
14	How many household members indicated in Q13 significantly contribute to the household expenditures or budget?	[ ]	
15	Asset Ownership Kindly tell us the major household and business assets that you own.		

HOUSEHOLD ASSETS	Tick	Estimated Value (K)	BUSINESS ASSETS	Tick	Estimated Value (K)
House			Fridge		
Television			Shop		
Decoder			Sewing machine		
Video cassette recorder					
Refrigerator					
Electric or gas cooker					
Radio					
Car					
Bicycle					

I would now like you to give us information on your household expenditures for the last one month for the outlined items? Where you cannot remember the actual figures, reasonable estimates will be very useful.

16		16a.	16 b.
	ITEM	Amount spent in KWACHA	Household member who contributes most of money to meet the expenditure of the item* *Expected responses: Self Spouse, Self and spouse Children, Other specify:____________
	Medical fees and Health related costs (Pre-payment scheme, expenditure on drugs etc)		[ ]
	Funeral costs (if any)		[ ]
	Education expenditures for household members currently in school.		[ ]

	Rent	[ ]
	Electricity/Lighting (such as candles)	[ ]
	Fuel (e.g. paraffin)	[ ]
	Charcoal	[ ]
	Transport costs	[ ]
	Groceries (Sugar, washing soap, lotions etc)	[ ]
	Food (Mealie meal)	[ ]
	Food (Relish)	[ ]
	Telephone	[ ]
	Cable/pay TV (DSTV,CASAT,MNET,SATELITE, etc)	[ ]
	Home Repairs	[ ]
	Financial Assistance to relatives; Visitors	[ ]
	Other (specify)	[ ]
	TOTAL	

17 What is the present monthly gross income of the household? Provide the income based on household consumption by source of household income.

Source of Household income	Amount
TOTAL	

Interviewer's Note: Begin by asking the respondent the sources of income for household consumption.

Section 2: SAVINGS EXPERIENCE; REASONS FOR SAVING

Let us now talk about Savings…

Qno.	Question	Responses	Skip to
18	Do you do any kind of savings?	[__] 1. Yes [__] 2. No	If No, Go to Q20
19	If Yes, how do you exactly save? Interviewer's Note: For MFI clients this savings should be other than the Mandatory	Type of Savings [__] 1. Saving cash in a formal bank [__] 2. Saving cash at the Post Office [__] 3. Saving cash at home [__] 4. Saving in a group (e.g Chilimba group)	

	(Compulsory) Savings. how often do you save? Question for respondents in formal savings What conditions are attached to the Savings? Interviewer's Note: Should include the interest rate earned, minimum balance requirement, degree of liquidity and any other conditions.	[__] 5. Saving in form of assets Frequency of Savings [__] 1. Weekly [__] 2. Fortnightly [__] 3. Monthly [__] 4. Other (Specify):___________________________ ______________________________ ________________________________ ________________________________ ________________________________ ________________________________ ________________________________ ________________________________ ________________________________	
20	What reasons would make you save? **Interviewer's Note:** Multiple responses possible. Do not read out the responses indicated here. Tick as mentioned by the respondent	[__] 1. Having precautionary funds in case of a household crisis such as death or illness [__] 2. To eventually purchase a large household asset that cannot be purchased given the cash flow in the household [__] 3. To finance a social event such as wedding [__] 4. To finance periodic expenditures such as children's school fees [__] 5. Availability of surplus funds [__] 6. To facilitate growth in the business [__] 7. To have somewhere to lean on in case of business failure [__] 8. To have something to leave for the spouse children in case of death (Survivors' estate) [__] 9. In order to purchase things in bulk say for the business or household [__] 10. To purchase large items, e.g. house (or make down-payment for their purchase) [__] 11. Other:_________________________________	
21	Do you find it difficult to save money?	[__] 1. Yes [__] 2. No	If No, Go to Q23
22	If Yes, what do you think makes you find it difficult to save? Interviewer's Note: Multiple responses are possible here; tick all that are mentioned. In case some responses are not coming out you can probe by turning the responses into questions soliciting for a Yes or No response. See example for Response 2; Do you find it difficult to save because you are in debts most of the times?	[__] 1. Too much pressure from household expenditures [__] 2. Usually in debts and hence settling debts almost all the times [__] 3. There is no safe savings facilities within reach for savings; No banks or MFIs offering savings products which are easily accessible [__] 4. Always experiencing crisis at home such as deaths and illness [__] 5. Never with surplus funds [__] 6. Pressure from loan repayments (For MFI clients servicing loans) [__] 7. Too many dependants [__] 8. Too many visitors, provision of financial assistance to relatives	

		[__] 9. Other (specify):__________________ ____________________________	
23	What is your general perspective of savings? Note: This should outline the purpose and benefits of Savings (this should include disadvantages of any)	________________________________ ________________________________ ________________________________ ________________________________ ________________________________ ________________________________	
24	Are you a member of any Chilimba group?	[__] 1. Yes [__] 2. No >>>	If No, go to Q28
25	If Yes, for how long have been a member? What were your main reasons for joining the Chilimba group? **Interviewer's Note:** Multiple responses possible. Do not read out the responses indicated here. Tick as mentioned by the respondent	[ ] [ ] Years Months [__] 1. A ready good means of saving [__] 2. A means of coping with some crisis Specify:___________________________________ [__] 3. A means of acquiring big assets [__] 4. A means of making bulk purchases in my business [__] 5. A means of meeting some pressing household needs [__] 6. I enjoy the social aspect of the group [__] 7. Creates discipline or pressure that I need Specify:___________________________________ [__] 8. Other (Specify):__________________ ____________________________	
26	Would you say that you have benefited from being in the Chilimba group? If Yes, how have you benefited?	[__] 1. Yes [__] 2. No >>> ________________________________ ________________________________ ________________________________ ________________________________	If No, Go to Q27
27	If No, explain why.	________________________________ ________________________________ ________________________________ ________________________________	

Section 3 : BORROWING EXPERIENCE; REASONS FOR BORROWING

28	Have you ever borrowed money for any reason whatsoever? Notes: Exclude the loan from the Microfinance Institution.	[__] 1. Yes [__] 2. No >>>	If No,

29	Include non-interest borrowing from friends/relatives. If Yes, for what reasons did you borrow money?	________________________________ ________________________________ ________________________________ ________________________________ ________________________________	Go to Q32
30	Do you have any debts at the moment? Note: These debts if any should be other than the loan from the Microfinance Institution	[__] 1. Yes [__] 2. No >>>	If No, Go to Q 32
31	If Yes, kindly provide the following information concerning these currents debts?		

TYPE OF DEBT Indicate whether With Interest or not If interest, indicate the following: Interest rate Repayment period Other conditions	REASON FOR BORROWING	BORROWED FROM: Use the key below: Money lender Friend Relative Other (specify)		

Section 4: Occurrence of Crisis, Economic Coping Mechanisms and Perceived

HOUSEHOLD LEVEL

32 What expenses do you fail to meet out of your regular flow of income for your household? How do you cope when such expenses come forth?

Expense	Coping strategy used

In the following questions, I would like you to give information about some issues concerning your household; I am particularly interested in those things that exert a lot of pressure on your household budget or for which you struggle so much to cope with. For most of the questions you will also be required to answer with a scale (meter or yardstick) that runs from 1 to 5. For instance in a question where you are supposed to indicate the degree of occurrence of some events at your home a higher figure such as 5 will signify a high frequency of occurrence. The guide to the ranking is as shown below:

Very low	Low	Average	High	Very High
1	2	3	4	5

<table>
<tr><th>Qno.</th><th>Question</th><th>Responses</th><th>Skip to</th></tr>
<tr><td>33</td><td>The following are some of the costs that you make at home. Rank the costs with the above scale to indicate the ones you normally struggle to cope with. Note that the higher the number the higher the difficulty in coping with such costs.

Interviewer’s Note:
Include the expenses indicated in the Q32 and not reflected on the responses on this question. Allow the respondent to RANK these as well using the same yardstick.</td><td><table>
<tr><th>COST</th><th>RANK</th></tr>
<tr><td>Covering Medical and or other Health costs</td><td></td></tr>
<tr><td>Paying for School fees</td><td></td></tr>
<tr><td>Meeting funeral expenses</td><td></td></tr>
<tr><td>Feeding the household members</td><td></td></tr>
<tr><td>Rentals</td><td></td></tr>
<tr><td>Birth of a child</td><td></td></tr>
<tr><td></td><td></td></tr>
<tr><td></td><td></td></tr>
<tr><td></td><td></td></tr>
</table></td><td></td></tr>
<tr><td>34</td><td>The following are some of things that you experience at home from time to time. Kindly RANK them in terms of frequency of occurrence.</td><td><table>
<tr><th></th><th>RANK</th></tr>
<tr><td>Death of Household member</td><td></td></tr>
<tr><td>Death of close relative
(Not staying with you but of which you are obliged to meet the funeral costs)</td><td></td></tr>
<tr><td>Sickness of household member</td><td></td></tr>
<tr><td>Sickness of self</td><td></td></tr>
<tr><td>Receiving unexpected visitors</td><td></td></tr>
<tr><td>Thieves breaking in and stealing from your home</td><td></td></tr>
</table></td><td></td></tr>
<tr><td>35

36</td><td>The following are some of the in which people cope with crises such as the ones you mentioned in Q32.
Based on your experience, RANK them in terms of degree of frequency of use.

Interviewer’s Note:
Add the coping strategies mentioned as responses in Q 33 and not reflected on the responses for this question. Allow the respondent to RANK them using the same yardstick.

Where do you get financial assistance (if any) when faced with a crisis?

Rank responses in terms of most prevalent.</td><td><table>
<tr><th>Coping strategy</th><th>RANK</th></tr>
<tr><td>Use of savings
Borrowing money from Money lenders</td><td></td></tr>
<tr><td>Borrowing money from friends and relatives</td><td></td></tr>
<tr><td>Reduction of household expenditures</td><td></td></tr>
<tr><td>Sale of household assets</td><td></td></tr>
<tr><td>Salary Advance from work place (Self or Spouse)</td><td></td></tr>
<tr><td></td><td></td></tr>
<tr><td></td><td></td></tr>
<tr><td></td><td></td></tr>
</table>
<table>
<tr><th></th><th>RANK</th></tr>
<tr><td>From relatives</td><td></td></tr>
<tr><td>From friends</td><td></td></tr>
<tr><td>From the Church members</td><td></td></tr>
<tr><td>From the Neighbours</td><td></td></tr>
<tr><td>Other:</td><td></td></tr>
</table></td><td></td></tr>
<tr><td>37</td><td>What kind of emer gencies do you mostly worry about?</td><td>____________________________________
____________________________________</td><td></td></tr>
</table>

I would now like you to give me a historic account on the occurrence of the outlined crises that you experience from time to time. You have to give me this information according to the outlined periods

38

EVENT	Number of times you experienced the outlined crises:			
	This year	Last year	Last 5 years	Last 10 years
1 Death of Household member				
2 Death of close relative (Not staying with you but of which you are obliged to meet the funeral costs)				
3 Short sickness of Household member				
4 Long sickness of Household member				
5 Short sickness of self				
6 Long sickness of self				
7 Theft at the house				
8 Theft at the business place (e.g shop)				

39 Kindly give us some estimates for the household expenditures:

	Amount based on how much on average you spent in the past	Amount based on how much you can spend if you had enough money to meet all the funeral requirements
Funeral		
Prolonged illness of household member (period over two weeks- 1 month)		
Short illness of household member (a week or less)		

BUSINESS LEVEL

Let us switch gears now and talk about your business. In some questions you will be requested to express you opinions. Note that in such cases, it will be helpful for you to base your answers on your critical observations of what is deemed as true about the community in which you are living.

Qno.	Question	Responses	Skip to
40	If one just got a loan from Micro Finance Institution, which of the following are likely to divert funds from the intended (investment in business) use.		

	Indicate the degree of likelihood Coding categories: 1. Almost certain 2. Highly likely 3. Average chance (50-50) 4. Unlikely 5. Very unlikely
1. Death of household member	

	2. Illness of household member	[ ]	
	3. Death of relative (not staying with you)	[ ]	
	4 Illness of self	[ ]	
	5 Social event (such as a wedding)	[ ]	
	6 Thieves breaking in and stealing from the House	[ ]	
	7 Receiving visitors	[ ]	
	8 (Other):____________________	[ ]	
41	In your own opinion what are the common eff ective alternatives within one's reach that can prevent the use of loan funds to meet expenses stemming from the crises indicated in Q 34? Interviewer's Note: Multiple responses possible. Do not read out the responses indicated here. Tick as mentioned by the respondent.	[__] 1. Borrowing money from friends [__] 2. Borrowing money from money lenders [__] 3. Borrowing from relatives [__] 4. Use of savings (if any) [__] 5. Sale of household asset [__] 6. Reduction of household expenditure [__] 7. Getting advance from work place [__] 8. Other:______________________________ [__] 9. Other:______________________________	
42	Is any of the following a problem for your business? Interviewer's Note: *Use the following key for the stated problems* No problem Not usually a problem Small problem Serious problem What other problems do you face in your business? Interviewer's note: Indicate the problems in the blank spaces. Use the key above (2-4) for each problem mentioned.	(see table below)	
43	What major setbacks have you experienced in your business? What were the effects on your business of these setbacks and how did you cope?		

PROBLEM	Code using Key
Inadequate working capital	
Poor sales	
Competition from others	
Pilfering by workers	
Loss of business assets and goods through theft	
Loss of business assets and goods through a fire	
Failure to get payments from customers (Businesses with credit facilities)	

Setback	Effect on Business	Coping strategy used

RISKS ENCOUNTERED IN THE BUSINESS

44 What things do you worry about so much for your business? Things that you see as would go wrong or you worry about them that in the event of occurrence they would badly affect your business and your income.

Interviewer's Note:
This question is intended to capture business risks.
Some respondents might need some brief explanation perhaps with an example on what is really meant by a risk as defined in the question. Indicate whether this was necessary or not during the interview (Tick appropriately below);

Necessary		Not necessary	

1.______________________________________
____
2.______________________________________
____
3.______________________________________
____
4.______________________________________
____
5.______________________________________
____
6.______________________________________
____

45 For each of the risks indicated in Q 44, indicate the extent of the effect and the likelihood of it happening.

RISK (as indicated in Q44)	45 a. Likelihood of occurrence Coding categories: Almost certain Highly likely Average chance (50-50) Unlikely Very unlikely	45 b. Extent of effect on the business in case of occurrence: Coding categories: Severe Somehow severe Not so severe Mild
RISK 1		
RISK 2		
RISK 3		
RISK 4		
RISK 5		

RISK 6	[ ]	[ ]

45 contd

RISKS ENCOUNTERED IN THE BUSINESS contd

For each risk again, I would now like you to indicate how often you worry about it and the description of the effect on your business.

45 c. 45 d.

RISK	Frequency of worrying on the risk. Coding categories: Rarely Not very often Often times Very often	Description of Effect on the business Coding categories: Reduction of a big portion of income for a while Reduction of a small portion of income for a while Business may collapse
RISK 1	[ ]	[ ]
RISK 2	[ ]	[ ]
RISK 3	[ ]	[ ]
RISK 4	[ ]	[ ]
RISK 5	[ ]	[ ]
RISK 6	[ ]	[ ]

46	Have you ever taken any measures to minimize or deal with the mentioned risks?	[__] 1. Yes [__] 2. No
47	If yes, outline these measures.	________________________________ ________________________________ ________________________________ ________________________________ ________________________________ ________________________________ ________________________________ ________________________________
48	Describe your experience with insurance. Interviewer's Note: This question is **ONLY** for respondents	____________________________ ____________________________ ____________________________ ____________________________

	who mention that Insurance is one of the measures they took in Q47.	________________________________	

49 For MFI clients only

What problems at household and business levels would you consider as hindrance to good loan repayment performance? Indicate the degree of the problem using the following key.
Not usually a problem
Small problem
Serious problem

49 a. 49 b. 49 c. 49 d.

HOUSEHOLD LEVEL	Degree of the problem	BUSINESS LEVEL	Degree of the problem
	[ ]		[ ]
	[ ]		[ ]
	[ ]		[ ]
	[ ]		[ ]
	[ ]		[ ]
	[ ]		[ ]

50	*For those who have never been MFI clients only* Would you kindly give us the reasons you have not accessed the services provided by MFIs? **Interviewer's Note:** Multiple responses possible. Do not read out the responses indicated here. Tick as mentioned by the respondent	[__] 1. Fear for credit [__] 2. Fear for loss of Household or Business assets [__] 3. The MFI does not offer the services I want; specify: ____ ____ [__] 4. I do not need such services [__] 5. Other:________________________________ [__] 6. Other:________________________________	

Section 4: Familiarity with Insurance, and Perceived Risk Management Financial Services

Qno.	Question	Reponses	Skip to
51	What is your understanding of insurance? Interviewer's Note: This should include understanding of the respondent on how insurance works?	______________________________________ ______________________________________ ______________________________________ ______________________________________ ______________________________________ ______________________________________	
52	How did you know about insurance? Interviewer's Note: This question is not applicable for those respondents who indicate they do not know anything about insurance.	[__] 1. From an Insurance Agent [__] 2. From Television and Radio advertisements [__] 3. From a household member [__] 4. From a community member, friend, neighbour [__] 5. Other (specify):____________________	
53	Do you have any experience with any Insurance Service Providers?	[__] 1. Yes [__] 2. No >>>	If No, Go to Q56

54	If yes, what type of insurance policy/polices?	____ ____	
55	How would you describe your experience with insurance?	____________________________________ ____________________________________ ____________________________________	
56	What is your general perception of insurance? Interviewer's Note: Probe on the following: who the respondent thinks should access insurance Risks and crises worth insurance	____________________________________ ____________________________________ ____________________________________ ____________________________________ ____________________________________ ____________________________________ ____________________________________ ____________________________________	

As we come to the end of the interview, I would like you to think of any financial services that can be provided by a financial institution that can help you easily cope with the household crises and deal with business risks you mentioned earlier.

57	What financial services do you think can be offered by a financial institution to help you cope with crises you indicated in Q 34 and deal with the risks mentioned in Q 44?	Financial Service 1. 2. 3. 4.	
58	For each of the financial services that you mentioned in Q 57, indicate the factors that would determine your choice for it.	Financial Service1 1. ___________________________________ 2. ___________________________________ 3. ___________________________________ 4. ___________________________________ Financial Service 2 1. ___________________________________ 2. ___________________________________ 3. ___________________________________ 4. ___________________________________ Financial Service 3 1. ___________________________________ 2. ___________________________________ 3. ___________________________________ 4. ___________________________________ Financial Service 4 1. ___________________________________ 2. ___________________________________ 3. ___________________________________ 4. ___________________________________	