Social Finance Programme

&

InFocus Programme on Boosting Employment through Small Enterprise Development

Working paper N˚ 29

Microinsurance in Burkina Faso

Michael Aliber
Alitou Ido

Employment Sector

International Labour Office Geneva

Foreword

This work on microinsurance initiatives in Burkina Faso was carried out with funding of the Dutch Government as part of the Dutch Partnership Programme with the ILO. It is part of a larger multi-country project that seeks to understand how low-income entrepreneurs cope with the risks that they face in securing a livelihood, and the role that insurance can play in managing those risks.

Low-income entrepreneurs are particularly vulnerable to the risks, many of which are insurable, but comparatively little insurance is available to them. Insurance is one of the most difficult of all financial services to provide. All insurers face risks getting the prices wrong, fraud, moral hazard and adverse selection. Those who provide insurance to low-income entrepreneurs face the additional challenge of trying to cover their costs (and make a profit) through the sale of relatively low-cost insurance policies. Recently a few microfinance institutions have begun to add microinsurance to their product lines, with varied results.

This paper presents findings of fieldwork in Burkina Faso on life, health and cattle insurance. The findings suggest that even in a country as poor as Burkina Faso, microinsurance schemes can flourish. The research finds that simpler forms of insurance can be operated relatively effectively, with limited actuarial skills, provided that pricing is prudent and that institutional defences are in place to combat the hazards that typically affect microinsurance schemes. The paper concludes with a series of recommendations for changes in the existing insurance legislation that will both promote and regulate the nascent microinsurance industry in Burkina Faso.

The Government of Burkina Faso expressed a wish to develop a specific microinsurance policy framework. The InFocus Programme on Boosting Employment through Small Enterprise Development (IFP/SEED) aims to ensure that low-income entrepreneurs have access to social services and protection. This research indicates that a viable strategy for achieving this is by delivering microinsurance through microfinance institutions. Many of the lessons learned in this research project have been incorporated into a training manual developed jointly by the InFocus Programme on Boosting Employment through Small Enterprise Development (IFP/SEED) and the Social Finance Programme (SFP). The manual will be used to train the managers of microfinance institutions in introducing and managing microinsurance products.

Bernd Balkenhol,
Social Finance Programme.

Chris Evans-Klock,
InFocus Programme on Boosting Employment through Small Enterprise Development.

Contents

1. Introduction

1.1. Background and purpose of this study

In 1998 the International Labour Conference adopted the job creation in small and medium-sized enterprises Recommendation. The Recommendation stressed the importance of small and micro-enterprises (SMEs) in fighting poverty by providing employment to low-income and other marginalized sections of society. One of the major factors in constraining the growth of the SME sector among low-income entrepreneurs is a culture of risk aversion. In general the poorer one is the more severe the consequences of any income loss and hence the more risk averse one is. For example, a poor farmer living on the edge of the poverty line is likely to be reluctant to risk innovating with new and untested seed varieties for fear that crop failure could result in starvation. Wealthier farmers may be happy to risk using new seed varieties because they have a buffer of wealth to protect them against the consequences of crop failure. This was recognized in the abovementioned Recommendation that stated that the ILO should seek, “through appropriate means, to encourage a more positive attitude towards risk-taking”. In addition to other financial services like emergency loans and savings, microinsurance can overcome risk-aversion among poor entrepreneurs. Insurance provides a buffer against risk.

Over the last few years a new category of insurers has emerged that cater specifically to the needs of SMEs. These institutions are still in their infancy. In order to promote and develop these institutions, ILO’s SFP decided to undertake within the framework of the Dutch-ILO Partnership Programme and in partnership with ILO/SEED a multi-country study of microinsurance institutions in order to map the frontier of microinsurance activities and begin to develop a set of best practice guidelines for them.

One of these country studies is on Burkina Faso. Burkina Faso has a vibrant microfinance sector, comprising a number of development NGOs that have introduced financial services to complement their other activities, as well as a newer generation of institutions, which were created specifically to offer low-income households an alternative to the formal banking sector. [1] For the purposes of this report, we speak of both categories of institutions under the common rubric of microfinance institutions, or MFIs. Over the years, a number of these Burkinabé MFIs have introduced microinsurance products, sometimes following international models, but just as often relying upon their own innovation. The Burkinabé MFI sector thus offers a valuable opportunity to learn more about the internationally emerging practice of microinsurance.

The present study has four overall objectives:

- First, to identify and categorize the range of existing microinsurance products available in Burkina Faso.
- Second, to study these schemes in order to learn how they function, what obstacles they contend with, and the room for improvement.

[1] An annually updated overview of all MFIs in Burkina Faso can be found in the PASMEC MF database which the BCEAO (Central Bank) and the ILO’s Social Finance Programme set up in 1996; see www.ilo.org/socialfinance...

- Third, to understand the risk environment in which Burkinabé SMEs operate, and thereby infer the extent to which present microinsurance products meet their needs and the scope for introducing new microinsurance products.

- And fourth, to provide a direct input into the ILO's initiative to develop a microinsurance best-practice manual for MFIs.

The paper is organized as follows. The introductory section presents a brief background on Burkina Faso. Section 2 provides an overview of Burkina Faso's microfinance sector, including the regulatory environment to which it is subject. Also by way of background, the commercial insurance sector is described in section 3. Section 4 presents and analyses the practices of six MFIs in three different types of microinsurance. Section 5 presents the results of a survey of SMEs, to portray the risk profile of "typical" rural and urban SMEs as well as their use of and potential demand for microinsurance. Section 6 brings together the various threads of analysis, summarizing the lessons to be learned by other countries from the microinsurance practices of Burkina Faso's MFIs, and extrapolating possible future directions for Burkina Faso's own microinsurance sector.

1.2. Background on Burkina Faso

Burkina Faso, situated in the Sahelian zone of West Africa, emerged from French colonial rule in 1960. It remains one of the poorest countries in sub-Saharan Africa, and regularly falls among the lowest rungs in the UNDP's human development index. Roughly 82 per cent of the 12 million inhabitants dwell in rural areas, and of these, virtually all are engaged in small-scale agriculture. Table 1.1 below summarizes some of the key demographic indicators.

Table 1.1. Demographic statistics for Burkina Faso

Estimated total population, 1999 (millions)	11.6
Population density (inhabitants per km^2)	42.0
Average annual population growth rate (1990-99)	2.8
Rural population as per cent of total population	82.0
Urban population as per cent of total population	18.0
Average annual rate of urbanization (1995-2015)	5.7

Sources: *Rapport sur le développement dans le monde 1999-2000*, Banque Mondiale, and *Rapport sur le développement humain 2000*, PNUD (UNDP).

The rate of urbanization of 5.7 per cent per annum is far greater than the substantial population growth rate of 2.8 per cent. According to UNDP estimates, the urban population will reach 27.4 per cent by 2015. However, if there were to be a dramatic reversal of the semi-permanent emigration of the 3.5 million Burkinabés who presently are (or until recently were) in neighbouring countries such as Côte d'Ivoire and Ghana, this could be much higher. Already, the surge in xenophobia that has followed political instability in Côte d'Ivoire, has led to growing ranks of unemployed Burkinabés in Bobo-Dioulasso, Ouagadougou, and elsewhere. In 1999, the economically active population was an estimated 6 million people, in relation to which the number of Burkinabés in neighbouring countries is huge. The 6 million economically active population represents 55 per cent of the total population. Women comprise 47 per cent of the economically active population, and about 52 per cent of the total population.

Burkina Faso has enjoyed relative political stability and social harmony. Since the early 1990s, the country has followed a consistent path towards market liberalization, notwithstanding the fact that the majority of the economically active population, both urban and rural, operates outside of the institutions that define the formal economy. Burkina Faso is a member of the Union Economique et Monétaire Ouest Africaine (UEMOA), comprising West African francophone countries, and thus is part of the Zone Franc, in which all countries employ the Franc CFA (FCFA) as their currency. The FCFA is pegged to the French franc, but underwent a 50 per cent devaluation in 1994, which had immense implications for the affordability of capital goods, vehicles, and fuel, which comprise the bulk of imports. Burkina Faso exports cotton, meat, and some mineral products. During the 1990s, Burkina Faso was in some years a net food exporter. The country's level of external debt grew rapidly from the late 1980s, but as a share of GDP has remained stable during the latter half of the 1990s.

The economy is dominated by the informal sector, in terms of the primary sector – i.e. agriculture and even more so the tertiary sector, i.e. urban-based services. Table 1.2 below shows the evolution of gross domestic product and its constituent parts, over the period 1997 to 2000.

Table 1.2. Trends in gross domestic product and inflation

	1997	1998	1999	2000
GDP (nominal, FCFA billions)	1374	1519	1674	1754
Real growth of GDP (per cent per annum)	5.5	1.0	5.8	5.8
Primary sector as per cent of GDP	29.9	30.2	29.8	–
Secondary sector as per cent of GDP	25.3	26.3	26.0	–
Tertiary sector as per cent of GDP	44.8	43.5	44.2	–
Consumer price inflation (CPI)	2.3	4.9	-1.1	–

Sources: Direction Nationale de la Statistique and BCEAO.

Given that around 80 per cent of the economically active population is engaged in subsistence agriculture, one of the key features of the risk environment is the gradual deterioration in agricultural conditions. Between 1966 and 1995, most parts of the country experienced a decline in annual rainfall of 100 mm (about 15 per cent on average), while rainy seasons have become shorter and increasingly erratic. This trend is endemic of the whole semi-arid subregion, and is typically attributed to deforestation and soil erosion.

2. The microfinance sector in Burkina Faso

2.1. Origins and overview of the MFI sector

As of December 1999, the formal banking system comprised 12 banks and other institutions, concentrating on the financing of the mainly state-owned enterprises in the manufacturing sector, and to a lesser extent on short-term financing to the 10 per cent of the tertiary sector, which is formal. The other 90 per cent of the tertiary sector, as well as the overwhelmingly subsistence agricultural sector, have historically not had access to the commercial banks.

As elsewhere in the region, NGOs and producer organizations moved to create a variety of forms of microfinance institutions, generally based on the principle of solidarity. Some of these MFIs go back to the 1960s and 1970s, but by the early 1990s a critical mass had accumulated so as to stimulate formal acknowledgement by and integration within UEMOA and its banking structure, the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO).

Presently, the financial system of Burkina Faso includes the 12 commercial banks oriented towards the formal sector, plus 21 "official" MFIs, that is to say MFIs that have been authorized by the Ministry of Finance to conduct financial services on behalf of the informal sector, in conformity with the regulations of the BCEAO. These 21 MFIs, however, are vastly outnumbered by an estimated 200 institutions that have not received (nor sought) such authorization. Though it is probably correct to say that the 21 authorized MFIs as a group manage a much greater volume of savings and credit.

The 21 authorized MFIs fall into three distinct categories:

(i) savings and loan cooperatives, mainly capitalized through members' savings;

(ii) "direct credit" institutions, mainly capitalized through donor assistance, and generally not accepting savings deposits; and

(iii) impermanent development projects having credit provision as a complementary activity.

Table 2.1 shows the number of institutions in each category for the period 1997-99. Although the total number of MFIs went up only modestly between 1997 and 1999, if one discounts the category of impermanent credit-providing projects, the number of MFIs almost doubles.

Table 2.1. Number of authorized MFIs by category

Type of MFI	1997	1998	1999
Savings and credit	6	10	13
"Direct credit"	3	3	4
Projects involving credit	9	3	4
Total	18	16	21

Source: PASMEC Data Bank (ILO/BCEAO), 1999.

Notwithstanding their small number, the authorized MFIs have a broad reach throughout the country, having a total of 564 branch offices as opposed to 72 for commercial banks, and having 1,002 employees versus 1,335 for the commercial bank system. The majority of the 564 branch offices are members of the Fédération des Caisses Populaires du Burkina, which in 1998 together accounted for 79 per cent of all MFI savings deposits and 54 per cent of all credit outstanding.

Table 2.2 compares the volumes of savings and credit handled by the formal banking sector and the 21 authorized MFIs. What the table reveals is that, notwithstanding the greater number of MFI branch offices and a comparable personnel complement, the volume of finance passing through commercial banks is far larger.

Table 2.2. Comparison between deposits and credit for banks and MFIs, 1999

	Deposits (FCFA billions)	Total (%)	Credit (FCFA billions)	Total (%)
Commercial banks	215.9	94	190	93
MFIs	12.8	6	15.1	7
Total	228.7	100	205.1	100

However, the relative significance of the MFI sector is growing, as of 1998 their share of total savings held was less than 4.5 per cent, and that of credit outstanding was less than 6 per cent. The rate of growth of total MFI membership/clientele grew from 146,000 to 389,000 between 1995 and 1998, increasing the "rate of penetration" from 8.1 per cent to 20.6 per cent. Whether this phenomenal expansion continued beyond 1998 is difficult to say.

Although diverse in nature, the majority of Burkina Faso's MFIs tend to have the following qualitative characteristics in common:

- personnel have little training or formal qualifications, and salaries tend to be low;
- women personnel dominate by virtue of the popular belief that women are more reliable and trustworthy when it comes to managing finances;
- interest rates on loans are between 8 and 20 per cent per annum, relative to a maximum of 18 per cent for commercial banks;
- interest on savings deposits is less than or equal to 2 per cent, versus around 3.5 per cent for commercial banks;
- MFI branches tend to be located close to their target membership/clientele, whether in urban or rural areas;
- MFIs tend to seek members rather than merely clients, and to play a positive role in their respective communities;
- MFIs try to cultivate an environment in which members/clients are at ease and have a sense of belonging, and to introduce procedures that are simple and practical;
- books are often kept in indigenous languages;
- physical collateral is less important than group solidarity as security for loans;
- deposits and loans tend to be modest in size but large in number, although less than one-third of the demand for loans can in practice be met given financial resources.

2.2. Regulatory environment for MFIs

The regulatory environment applying to Burkina Faso's MFIs is centred upon a code that was adopted by the Council of Ministers of UEMOA in 1993. In Burkina Faso, the legal force of this code is captured in Laws No. 59/94/ADP and No. 95-308/PRES/MEFP, adopted in December 1994 and July 1995 respectively, and which apply to all "institutions mutualistes", savings and credit cooperatives, and their unions, federations, or confederations. These laws identify the conditions that must be met for an institution to qualify for an "agreement" from the finance ministry, by which they are recognized and permitted to operate, and which, inter alia, exempts them from laws normally applying to institutions performing banking functions.

Guidelines governing the practices and management of MFIs that do not assume the form of mutuals or savings and loan cooperatives, were adopted by the UEMOA Council of Ministers in July 1996. In order to accept savings deposits or extend loans, these other MFIs must first sign a convention with the Ministry of Finance, which, subject to the Ministry's approval, can be renewed every five years.

In March 1998, the BCEAO released specific guidelines governing the manner in which MFIs report financial information, so as to facilitate the job of monitoring them. In effect, the guidelines require each MFI, as well as each MFI union, federation, and confederation, to produce an annual report detailing its activities and financial statements. Annual reports must be tendered within six months of the end of the financial year, to the unit within the respective Ministry of Finance, which is charged with supervision of MFIs.

As mentioned above, there are a large number of non-authorized MFIs, which are mainly non-authorized by virtue of not having sought authorization from the Ministry of Finance. At this point in time, the Government is not making an active attempt to close down these MFIs, though it is technically entitled to do so. The attitude appears to be that they should be provided more time to prepare themselves to conform to the regulatory guidelines, and in the meantime should be left to carry on with what are presumably useful activities. This situation has rankled some authorized MFIs, however, who resent the fact that their non-authorized counterparts are permitted to compete with them without having to observe the same requirements.

Neither the Burkinabé laws bearing on the MFI sector, nor the various MFI-related directives of the BCEAO, explicitly allow or forbid MFIs to practice insurance. However, as will be discussed below, the legal regime governing the insurance industry itself has clear guidelines for who can engage in insurance business.

"Health mutuals" (see section 4) are a special case. For the time being, health mutuals are recognized within the broad category of voluntary not-for-profit associations, which are provided for by Law No. 10/92/ADP (ADRK, 2000). This legislation, the administrative responsibility for which appears to be shared between the Ministry for Health and the Ministry for Territorial Administration and Security, does not make specific provisions for the practice of health mutuals. However, reportedly the Ministry of Work, Employment and Social Security is working on the drafting of new legislation that would cater to health mutuals.

3. The insurance industry in Burkina Faso

3.1. Burkina Faso's commercial insurance industry

The commercial insurance industry of Burkina Faso comprises three main company "groups" that deal in personal and business insurance (i.e. excluding those that only focus on trade and investment-related insurance). In order of market share, these are: Société Nationale d'Assurances et de Réassurances (SONAR); Foncias; and Union des Assurances du Burkina (UAB). As is the international trend, the CIMA Code (see 3.2 below) requires that a single company cannot practice both long-term and short-term insurance, thus in the course of the 1990s SONAR and Foncias each divided into two discrete but allied companies, while UAB is still in the process of doing so.

The total turnover of the insurance industry is in the order of 10 to 12 billion FCFA (US$13.5-16), which is around 0.7 per cent of GDP or, more interestingly, just less than the collective savings deposits or loan books of the 21 authorized MFIs. Taking both long-term and short-term insurance together, the SONAR group accounts for roughly one-half of market share, while the Foncias group accounts for another third of market share, and UAB the remaining one-sixth.

SONAR is also the oldest of the three insurance groups, having been started in 1974 through the absorption of the operations of foreign societies, leaving foreign interests a stake of 38 per cent relative to 51 per cent for the State and 11 per cent for private national interests. After 1994, the stake of the State was reduced to 22 per cent, largely on account of advice from multilateral donor agencies. There are still significant foreign interests in the Burkinabé insurance companies, generally French. Roughly 38 per cent of SONAR is presently owned by foreign insurance concerns, and Foncias is a branch of Athéna Afrique, which is the African arm of the Paris-based Groupe AGF-Allianz. UAB, similarly, is a member of the Paris-based Groupe AXA.

Much of the commercial insurance business in Burkina Faso owes to compulsory third-party liability insurance for owners of cars and trucks. While many countries legislate compulsory third-party vehicle insurance, in Burkina Faso as in much of the rest of West Africa, the low demand for other types of insurance (especially long-term insurance) means that third-party insurance constitutes the most common type of insurance written (*La Voie*, 1998). While it is difficult to gauge the degree of compliance with this law, casual observation would suggest that it is high; such insurance is paid on an annual basis, and vehicle owners must mount a certificate on their windscreens at all times demonstrating that their insurance is up to date. That this insurance accounts for a large share of all commercial insurance (i.e. by number of policies as well as by volume of premia), is suggested by the fact that the capital dedicated to, say, the short-term business of SONAR (SONAR-IARD), is almost 50 per cent larger than its long-term insurance. This is contrary to what one finds in most countries where on average long-term insurance is 50 per cent more important than short-term insurance.

Anecdotal evidence suggests that, apart from mandatory motor insurance, personal and business-related insurance are beyond the means of the vast majority of Burkinabés. As one example, UAB has recently introduced its first health insurance scheme. The policies are for families of five, and cost 300,000 FCFA (US$405) per year. This may seem little in dollar terms, but it is very high relative to most people's means, representing about 25 per cent of the average annual expenditure for an urban household of five. Urban-based health mutuals, by contrast, cost more in the region of 24,000 FCFA (US$32) per year. The main target for personal insurance would appear to be the well-to-do business elite, as well as numerous expatriate workers and their families, not least those employed by international aid organizations. Having said this, there were a handful of urban-based SME operators interviewed in the course of the SME survey who have life insurance with commercial insurers, costing in the order of 84,000 FCFA (US$114) per year. Also, notwithstanding what appears to be a restricted client base, Burkina Faso's commercial insurance societies provide a large diversity of insurance policies, both in terms of life and non-life insurance.

The inaccessibility of commercial insurance is a function not only of price but also of geography. SONAR has seven branches distributed in the larger cities and towns; Foncias has two, limited to the two largest cities of Ouagadougou and Bobo-Dioulasso; and UAB has around five. Given that the population of Burkina Faso is overwhelmingly rural, with transport costs high relative to most rural incomes, this implies that commercial insurance is all but inaccessible to the majority of the population by virtue of physical location. However, very recently, at least two of Burkina Faso's commercial insurance companies acknowledged that they may be able to reach a much larger client base by linking up with MFIs. To date, this expression of interest is limited to discussions about the possibility of providing credit-life insurance through MFIs.

A statutory social security system applies to those in formal sector employment. The system consists of two separate entities, namely the Caisse Nationale de Sécurité Sociale (CNSS), which caters to those employed in the private sector, and the Caisse Autonome de Retraites des Fonctionnaires (CARFO), which caters to civil servants. Both institutions trace their ancestry to the colonial era administration of the 1950s. As with social security systems elsewhere in the world, automatic salary deductions fund the schemes, which in turn provide pensions and various other services. Deductions for a semi-skilled salaried worker are in the order of 75,000 FCFA ($100) per year. Participation in one or the other scheme is mandatory.

3.2. Regulatory regime for the insurance industry

In 1992, the 14 member countries of the Zone Franc signed a treaty establishing the Conférence Inter-Africaine des Marchés d'Assurance (CIMA). The motivation for the creation of CIMA was threefold: to modernize and harmonize regulations pertaining to the insurance industry among all the Zone Franc countries; to promote the insurance industry and the uptake of insurance, especially life insurance, as an important component of economic development; and to provide for regional structures which could, inter alia, support the regulatory functions of signatory countries and adjudicate in cases of dispute with particular insurers.

In 1995, the "Code des Assurances CIMA" was adopted, replacing each country's own insurance legislation. The CIMA Code performs the usual function of insurance legislation, i.e. defining the 23 different classes of insurance business that can be practiced; stipulating the process for gaining license to practice one or more of these classes of insurance; and setting down standards such as minimum capital requirements, solvency ratios, bookkeeping requirements, etc. Subject to the provisions of the CIMA Code, each member state makes its own licensing decisions, and is responsible for the day-to-day supervision of the insurance companies operating within its borders.

The microinsurance practiced by MFIs in Burkina Faso and other signatory countries, is not technically allowed under the CIMA Code. Most MFIs would not be able to meet minimum capital requirements. Informally, CIMA officials acknowledge awareness of the microinsurance activities of MFIs and the fact that they are in breach of the Code, but they also admit that microinsurance is meeting a need which commercial insurance companies generally cannot. There appears to be interest in CIMA in finding a way to accommodate MFI-based microinsurance, but also a thoughtful acknowledgement that a hasty effort to introduce new MFI-oriented guidelines could do more harm than good. In the meantime, while CIMA is learning more about the emerging practice of microinsurance and considering how microinsurance might be accommodated, it is maintaining an attitude of tolerance.

4. The practice of microinsurance in Burkina Faso

4.1. Introduction

The purpose of this section is to describe and analyse in some detail the practice of microinsurance by MFIs in Burkina Faso. The purpose is to describe and assess microinsurance provision by Burkinabé MFIs and to identify areas for further adjustment.

The section is organized according to the three main types of microinsurance practised (or formerly practised) in Burkina Faso, namely credit-life insurance, health insurance, and property insurance.

4.2. Methodology

In the first instance, the team relied upon the invaluable assistance of the Ministry of Finance to identify MFIs that practise microinsurance. The preliminary list provided by the Ministry of Finance was then followed up with a round of telephone calls, to verify the activities of the MFIs. Because the Ministry of Finance only deals with those MFIs that are formally recognized, contact was also made with about a dozen non-authorized MFIs to learn whether any of them practise forms of microinsurance.

Secondly, six MFIs were selected on the basis of representing a good mix of different types of microinsurance, and discussions were then held with the director or with a collection of senior officers of each MFI. A questionnaire provided by the Social Finance Programme of the ILO was used as a guide during these discussions.

Thirdly, in most cases structured interviews were conducted with members or clients of these same MFIs. The member/client interviews shed further light on the activities of the MFI in respect to microinsurance, though the main purpose was to assess the potential insurance demand among Burkinabé SMEs (see section 5).

4.3. An overview of microinsurance provided by MFIs

Forms of what we would term microinsurance have been practised in Burkina Faso for not less than 30 years, but most instances of its practise are more recent, and have depended very much upon each MFI’s individual innovation. Two main types of microinsurance are practised, namely credit-life and health insurance.

Credit-life insurance is particularly common, not least because it is practised by the largest MFI, namely the Fédération des Caisses Populaires du Burkina. In addition, however, many smaller MFIs have started credit-life insurance in their own right. Altogether, some six MFIs practice credit-life insurance, though if one were to take into account all of the different Caisses Populaires making up the Fédération, the number would be rather in excess of 200. With one exception, MFIs that practise credit-life insurance do so in their own right, and not as agents of or in partnership with commercial insurance companies.

Health insurance has more recently been introduced, largely but not exclusively in the form of health mutuals by virtue of the technical support of foreign donor agencies. We focus here on those health mutuals that are linked in some fashion to an existing MFI. There is something in the order of six MFI-related health insurance schemes in Burkina

Faso, some of which are still in the process of being started. The number of functional units is larger, as some of the MFIs support numerous health mutuals.

A final important example of microinsurance is that of the plough oxen insurance that was practised by a rural development NGO in the west of the country between 1969 and 1994. This experience will be discussed at length, because it addressed a need which is still keenly felt by large numbers of Burkinabé farmers.

Although the practice of microinsurance in Burkina Faso is still mostly new and limited to a few main types, it could fairly be described as dynamic. This dynamism is evident in a number of ways, such as the rapid introduction of credit-life and health insurance schemes; frequent experimentation with or adjustments to existing schemes; and an expressed interest in exploring other forms of microinsurance.

There are several factors contributing to this dynamism:

- the MFI sector is itself rather young and dynamic;
- the activity of foreign donor agencies, particularly in the area of health insurance;
- the emerging link between MFIs and formal sector insurance companies; and
- the generally open and conducive environment in which MFIs operate.

The main constraint to the further development of microinsurance is the paucity of available information about alternative forms of MFI-based microinsurance. Moreover, notwithstanding the fact that most MFIs belong to one of the two national associations for MFIs, there appears to be little sharing of experiences among MFIs in the area of microinsurance.

4.4. Credit-life insurance

Three MFIs that practice credit-life insurance were examined in some detail. These included the Caisse Populaire de Cissin, MUFEDE, and PRODIA. In addition, less thorough discussions were conducted with a fourth MFI that practices credit-life insurance, namely Coopec-Galore, as well as with two commercial insurance companies, SONAR and UAB, that are seeking to involve themselves in the provision of credit-life insurance for MFI borrowers.

The Caisse Populaire de Cissin is one of the oldest of the Caisses Populaires belonging to the Fédération des Caisses Populaires du Burkina, and is situated in an established neighbourhood of Ouagadougou. Credit-life insurance was introduced in 1995. Mutualité-Femmes et Développement du Burkina (MUFEDE) has operations in a number of different towns, including Ouagadougou as well as some rural areas, and comprises around 13,000 members. MUFEDE does accept men as members, though the majority of members are indeed women. Interviews were undertaken with the director, who works out of the head office in Ouagadougou. MUFEDE initiated credit-life insurance in early 2000. PRODIA is a “direct credit” institution that tends to target a clientele that is somewhat intermediate between that of other MFIs, and those who might seek to borrow from a commercial bank. Presently, PRODIA only has a presence in Ouagadougou, and has a loan book with 1,810 active borrowers. PRODIA first introduced credit-life insurance in 1995. Coopec-Galore is a small MFI with only 260 members. Like the Caisses Populaires and MUFEDE, Coopec-Galore functions as a typical savings and loan cooperative, only considering loan applications from members who have savings deposits. Coopec-Galore introduced credit-life insurance at the beginning of 2001.

4.4.1. Basic elements

In all the four MFIs interviewed, credit-life insurance is obligatory with any loan to a person, though not applicable to societies. In the case of MUFEDE, individuals who borrow via a group loan are also exempted from this obligation. Second, the issuing of the credit-life policy is integrated with the loan decision, with the loan officer usually explaining the purpose of the policy to the client, and minimal additional administration involved. Third, the cost (premium) of the credit-life cover is in each case calculated as 1 per cent of the loan amount, and is deducted from that amount at the moment when the loan is paid out to the borrower.

Curiously, each of the four institutions uses a different term for its credit-life insurance. The Caisse Populaire de Cissin calls it a “fonds mutuel”, MUFEDE calls theirs “fonds de prévoyance” (roughly translated as a “contingency fund”), and PRODIA “assurance décès” (or “death insurance”). The fact that such different names are employed probably reflects the fact that each MFI originated the idea for its scheme quite independently, rather than by following a known model. This makes it all the more remarkable that they came up with such similar systems, not least the 1 per cent level premium.

However, there are some important differences between the credit-life schemes practised by these MFIs. One difference is that MUFEDE, unlike the other three, does not immediately close the loan account of a borrower upon that person’s death. Instead, the loan carries on to term, and to the extent possible is repaid by drawing on the deceased member’s obligatory savings, which is not less than 25 per cent of the amount that was borrowed. The insurance fund is drawn upon to make up whatever deficit remains. There did not seem to be any strong rationale for designing the system in this manner, and upon discussion the director indicated that this feature might be reviewed. In particular, it could be construed as excessively cautious, and has the disadvantage of denying to the deceased member’s family whatever savings that person might have left to it.

A second interesting difference relates to the particular experience of PRODIA. PRODIA initially approached a commercial insurer in the mid-1990s with a view to having larger loans indemnified against the death of the borrower. The arrangement with the commercial insurer worked satisfactorily for two years, but at that point PRODIA started experiencing difficulty in getting the insurer to honour claims. PRODIA then decided to sever its link with the insurer, and to rather arrange for credit-life cover internally, and at the same time to extend this to all borrowers regardless of loan size. However, while this generally worked well, PRODIA still worried that the death of one or two larger borrowers could alone prejudice the good standing of its loan book. Thus it returned to the idea of requiring larger borrowers – specifically those borrowing more than 500,000 FCFA (US$675) – to acquire credit-life cover through a commercial insurance company. In a sense, this involved a return to the original system, at least for larger loans, but with one significant difference, namely that the client can approach the commercial insurer of her choice, and it does not depend upon a standing arrangement between PRODIA and a particular company. Partly as a result of this greater reliance on competition, however limited, PRODIA clients seeking credit-life cover from SONAR or UAB appear to get favourable terms, i.e. 0.75 per cent to 0.85 per cent rather than the 1 per cent charged by PRODIA itself on the more numerous smaller loans. Also, unlike credit-life insurance practised directly by these MFIs, the policies that are written by insurance companies are considered in terms of their specific circumstances, e.g. the term of the loan as well as the age and other characteristics of the borrower.

A logical alternative to the approach PRODIA adopted would have been to have passed on the credit risk of larger borrowers through reinsurance, say with SONAR or Foncias. The nature of the risk is that the size of claims can potentially be very large, while the number of annual claims are apt to have a high variance. This implies a form of non-proportional reinsurance known as "risk excess of loss", which obliges the reinsurer to bear the cost of that part of a claim that exceeds a pre-defined level, i.e. the "excess point". [2] While this would be appropriate for the case of PRODIA, and would even allow PRODIA to share in the insurance profits, it might also involve a substantial amount of work to formulate a mutually acceptable agreement. Since PRODIA's core business does not include insurance provision, its present approach may indeed be more sensible.

4.4.2. Overall performance

These schemes serve their purpose adequately. For the Caisse Populaire de Cissin, for example, in 2000 the credit-life premia totalled about 4 million FCFA, versus 2 million FCFA actually required to compensate for loans of borrowers who had died (US$5,400 and $2,700, respectively). While similar figures for earlier years were not available, this positive margin was apparently typical.

Given the manner in which the administration of credit-life insurance is integrated into the normal business of approving and disbursing loans, it was not possible to identify the administration costs. However, by the same token, it was generally agreed that the additional administration costs are minimal. No health exam is required to be eligible for credit-life cover, though in general elderly people or those who are obviously ill are not considered for loans, and thus credit-life insurance is not an issue. The only significant administrative problem mentioned, and which was only mentioned by one of the MFIs interviewed, related to the fact that for this MFI, the processing of a claim requires the production of a death certificate, both to verify the identity of the deceased and to establish that the death was not by suicide. (The latter is a universal condition of credit-life insurance practised by commercial insurance companies). The problem occurs when, for one reason or another, the certificate is not forthcoming. While this can and does cause delays, in most cases the whole process is uneventful and is concluded within one month.

Administration costs are perceived to be lower than the actual and "emotional" costs associated with trying to recover payments from the family of a deceased borrower, or even worse with seizing assets from the family. To avoid these situations was after all one of the main motivations for introducing credit-life insurance in the first place.

4.4.3. The basis for setting premia

It appears to be a striking coincidence that each of the four MFIs interviewed charges 1 per cent of the loan amount as premium. For the Caisse Populaire de Cissin, the 1 per cent charge was determined by the Fédération, and it remains unclear on what basis this was chosen. For MUFEDE and Coopec-Galore, the 1 per cent was chosen quite arbitrarily, being "a nice small number". For PRODIA, the 1 per cent seemed reasonable in light of what the commercial insurers usually charge. Thus, possibly with the exception of the Caisses Populaires, MFIs that practice credit-life insurance do not engage in a conscious actuarial exercise to determine the appropriate premium, but rather select a figure that seems subjectively or objectively reasonable, with the expectation of adjusting it over time as or when necessary. While this learning-by-doing attitude no doubt has some merit, it remains an open question whether MFIs have in mind anything like a rigorous method for making this assessment. Only the Caisse Populaire de Cissin could immediately produce

[2] Since PRODIA is not technically an insurance company, a formal cedant-reinsurer agreement would presumably not be possible. Even so, it would be possible for PRODIA to strike an arrangement with a commercial insurer that mimics what is essentially a reinsurance product.

figures providing some perspective as to the scheme's financial viability, which is somewhat ironic in light of the fact that it is the one MFI of those interviewed that does not have the discretion to set its own premia.

4.4.4. Perceptions of members and clients

MFIs were requested to convey their impressions as to how their members or clients felt about the credit-life insurance, particularly at such time as it was first introduced. None of the MFIs had experienced a great deal of resistance to the introduction of its mandatory credit-life insurance, although many members did have suspicions and qualms. One MFI stated flatly that no one would take up credit-life cover if it were not mandatory. Nevertheless, people generally did not complain, perhaps because they perceived that they had so few real alternatives for procuring a loan.

A second MFI felt the need to reassure members applying for loans, as though to say, "It is not because we want you to die". A third MFI indicated that it was simply a matter of clearly explaining the purpose of the insurance, and then it was readily accepted. In all cases, the initial reaction of members/clients appears to relate in part to people's unfamiliarity with insurance, and in particular, unfamiliarity with insurance related to a person's death. The fact that resistance was not greater may relate to the modest size of the 1 per cent charge, which is on a par with once-off administrative fees that are typically charged to borrowers, and obviously not great relative to interest charges of 12 per cent or more.

4.4.5. Dealing with moral hazard and adverse selection

Moral hazard and adverse selection are not familiar principles to MFI staff. Therefore, efforts to find out directly how MFIs dealt with moral hazard and adverse selection, were not successful. Indications of concern with adverse selection did arise incidentally, for example in terms of the ineligibility of elderly people (generally those over 60) or those who were obviously ill, and the denial of benefits in the event of suicide. In the context of mandatory credit-life insurance, however, moral hazard and adverse selection are of little relevance, since people do not have the opportunity to select in or out of the scheme, and since presumably one would not encourage one's own premature death simply for the sake of having one's loan paid off.

4.4.6. Interactions with other MFI activities

In the particular case of credit-life insurance, the link between the insurance and the MFIs' lending activities is straightforward. The existence of the insurance provides greater stability to the lending operations of the MFI, provided loan approval criteria are not somehow distorted in reaction to the introduction of that insurance. The question remains, however, why MFIs seem to prefer to introduce credit-life insurance rather than absorb this risk through the provision for bad debt. When posed to MFI officials, answers to this question were vague. It may be that institutions tend to see provision for bad debt (or adherence to prescribed reserve ratios) as practices imposed on them externally by regulations, rather than a useful management tool. A different possible explanation is that, in the absence of credit-life cover, an MFI will feel compelled to try to collect from the families of deceased borrowers, even if technically it is in a position to absorb the loss associated with those deaths.

Depending on the particular institutional arrangement, one area in which the interaction between lending activities and credit-life cover threatens to break down is when the borrower is in arrears on his loan repayment. The Fédération des Caisses Populaires, for example, applies a rule that a credit-life policy is not honoured if the borrower is in arrears at the time of his death. This means that the member Caisse is then compelled to try to recover payment from the family. However, this is often a particularly disagreeable circumstance in which to try to approach the family, since the fact that the deceased borrower was in arrears is usually an indication of the family's financial difficulty in the first place, no doubt then compounded by that person's death. The rationale for such a condition – which is not uncommon among MFIs that practice credit-life insurance – is such that the credit-life cover does not itself become a disincentive to borrowers to fall into arrears in loan repayments (i.e. if they think there is a non-trivial chance that they may not live long enough to repay the loan anyway), nor a disincentive to MFI staff to be diligent in loan collection. Curiously, however, commercial insurance companies typically do not impose such a condition. Rather, a credit-life policy issued by a commercial insurer typically insures what *should be* outstanding according to the original loan agreement, regardless of the fact that the actual amount outstanding may be larger. The advantage of this arrangement is that it properly distinguishes and allocates the different risks, such that the lending institution still bears the usual risk of non-repayment, while the insurer bears the risk of the borrower's death. Where one and the same institution is responsible for both functions, arguably a draconian rule such as that applied by the Caisses Populaires makes sense, but it is not necessarily optimal.

4.4.6. Broader questions and future directions

In examining the benefits and best practice issues around MFIs and credit-life insurance, it is instructive to reflect on the fact that, in many developed countries, the public perception of credit-life insurance is rather negative. Consumer advocacy groups in particular have decried credit-life insurance as being too expensive, and often being a feature of predatory lending practices. High profile court cases in the United States (e.g. Federal Trade Commission versus Citigroup Inc. et al., 2000) have also drawn attention to the fact that credit-life insurance has a tainted side.

There are two main issues involved. One is the charge that people approaching a financial institution for a loan are often not aware that they are also acquiring insurance, or to the contrary are told about the insurance, but are led to believe (often very subtly) that it is obligatory. Consumer advocates argue that low-income borrowers are especially unlikely to resist these tactics, both because they are less aware of the law, and because they are less likely in a position to negotiate with a particular lender or seek loans from alternative sources. The perception that such "packing" practices are predatory is also based on the fact that the lending institution usually shares in the insurance profits or receives a commission. In part because of these concerns, many countries have laws forbidding obligatory insurance of this kind. Admittedly, the status of these laws is somewhat nebulous, since lenders retain the discretion to refuse a loan if they deem it too risky, which they might argue is the case in the absence of credit-life insurance. The point remains, however, that illegality of mandatory insurance (which is not to say classes of insurance that are made compulsory by the state), appears to be an international trend.

While it is not being suggested here that Burkinabé MFIs that practise mandatory credit-life insurance are at all predatory in the sense described above, it does raise a sensitive question about the prudence of this approach. This is especially the case given that credit-life insurance is clearly introduced for the benefit of the MFI, and not to satisfy a demand among clients. According to one of the MFIs, few if any MFI borrowers would elect to buy a credit-life policy if it were not mandatory. One approach to this dilemma is perhaps to follow the example of PRODIA with its larger clients, who are required to obtain credit-life cover (with PRODIA as beneficiary) with whichever commercial insurer they choose. Although the mandatory element is still present, the absence of any profit-sharing or commission-earning arrangement between PRODIA and these insurers means that PRODIA cannot be suspected of being predatory, and the cost of the credit-life cover is kept reasonably modest.

Another approach, however, would be to opt for group credit insurance rather than individual contracting. Under group credit insurance, the contract is between the MFI (i.e. the credit provider) and the insurance company, and covers the MFI's exposure vis-à-vis the premature death of borrowers. This approach avoids the issue of mandatory insurance to borrowers, though presumably the cost of the MFI's cover with respect to the insurer must be passed on to borrowers through higher interest rates or service fees. Relative to the option of writing contracts for individual borrowers for cover from commercial insurers, this option would also have the advantage of lowering administration costs, because the payment of premia and processing of claims could be done in batches rather than per individual. Under this approach, the MFI could still alert borrowers to the fact that they have credit-life insurance, and thus sensitize them over time to the value of insurance generally.

The second controversial issue mentioned above – the cost of credit-life insurance stems from a comparison between credit-life insurance and term life insurance. The argument is that for a given premium, the benefits one (or one's family) derives from a typical credit-life policy are lower than what one derives from a typical term life policy (Forefield Inc., 2000). The implication is that one should rather obtain term life insurance, which in the event of the policyholder's (borrower's) death would leave the family more than enough money with which to repay the loan. A survey of credit-life insurance practises in the United States, revealed that the average loss ratios for credit-life insurers was 43 per cent, versus a "defensible" level of 60 per cent, meaning that credit-life premia are hugely in excess of what they have to be for risk reserve purposes (Consumer Federation of America, 1996). This probably reflects the fact that, as stressed above, credit-life policies are apt to be abused by the commercial sector, allowing them to garner excessive profits. It is difficult to believe that there is any actuarial rationale for credit-life insurance to be more costly than term-life insurance, and in fact part of their appeal to the bancassurance industry is that administration costs are so low.

Again, this is not to imply that credit-life insurance as practised by Burkinabé MFIs is exploitative, but it does raise the question as to whether credit-life insurance is too expensive, on the one hand, and inferior to term life insurance, on the other hand. While international comparisons are somewhat tricky, it would appear that the 1 per cent charged by Burkinabé MFIs for credit-life cover is in fact rather high. This is especially true for those taking out shorter-term loans, who pay the same insurance premium as those taking out longer-term loans. The loss ratio of 50 per cent implied by the data from the Caisse Populaire de Cissin would support the inference that the 1 per cent premium is higher than it might be, and that the 1 per cent level is not just a function of, say, high mortality rates. More to the point, however, one might ask whether there is scope for MFIs to introduce term life insurance instead of or in addition to credit-life insurance. A simple way of doing so, provided it is actuarially feasible, would be to introduce term life cover as an extension of the existing credit-life practice, i.e. that the insurance policy is designed to indemnify the MFI against the outstanding loan in the case of death, but in addition to leave something to the family of the deceased. Commercial insurers with whom this possibility was discussed saw no technical reason why it could not be undertaken. Also, credit-life insurance falls within the domain of life insurance business, making this a natural and administratively easy adaptation. Any number of variations could be imagined. As an example, there might be a minimum mandatory level of cover that only indemnifies the outstanding loan of the borrower, as well as an elective additional level of cover as per term life insurance (section 5). This approach could be combined with the proposition made above regarding group credit insurance.

Presently, commercial insurance companies are trying to engage MFIs in discussions on ways in which they might take over the function of providing credit-life cover that the MFIs have for the most part been providing internally. Insurance companies see this as a first step in a broader strategy of extending their client base through MFIs, that is, for a variety of different possible types of cover. This is indisputably an exciting development, provided the insurance companies are able to offer these services at less cost than that at which the MFIs are able to offer.

4.5. Health insurance

Three MFIs that are involved with health insurance were interviewed in some detail, namely ADRK, MUFEDE and URCBAM. In addition, discussions were held with two technical agencies that support the development of health insurance schemes in Burkina Faso, namely STEP of the ILO, and Reseau d'Appui aux Mutuelles de Santé (RAMS).

The Association pour le Développement de la Région de Kaya (ADRK) is based in the town of Kaya, which is the administrative seat of the province of Sanmatenga, some 105 kilometres north, north-east of Ouagadougou. ADRK is one of the oldest and largest rural-oriented NGOs in the country. In addition to various types of technical support to agricultural producers, ADRK manages a number of savings and credit cooperatives in its area of activity.

About four years ago, ADRK initiated an inquiry to find out how it might improve its repayment levels. One of its principal findings was that some members, who were ostensibly borrowing money to further their enterprises, were in fact using the money to pay for medical care. ADRK therefore decided to investigate mechanisms to improve people's ability to afford health care, both as an end in itself and to reverse the situation whereby the unaffordability of health care was distorting its loan portfolio. With the technical support of RAMS and some financial support from the Netherlands, ADRK undertook a feasibility study. It eventually introduced health mutuals in five locations: Pissila, Boussouma, Mané, Boulsa and Bokin. ADRK's health mutuals, however, are still at an early stage.

The MUFEDE, an MFI based in Ouagadougou, has started health mutuals in three areas of the country, two with the support of RAMS, and one with the support of STEP. These mutuals are also mostly at an early stage, having started operations within the past year or so. MUFEDE is presently working on the introduction of health mutuals in Ouagadougou itself.

The Union Régionale des Cooperatives d'Epargne et de Crédit du Bam (URCBAM) is based in Kongoussi, which is some 115 kilometres north, north-west of Ouagadougou in the province of Bam. The area is similar to that of Kaya, but less poor by virtue of somewhat better agricultural conditions. However, Kongoussi is somewhat more isolated than Kaya, accessible only by gravel roads. As no commercial banks do business in Kongoussi, URCBAM has developed an interesting strategy. In addition to the savings and credit cooperatives active in Kongoussi and surrounding towns seeking to serve low-income households, URCBAM has one special unit, only functioning in Kongoussi itself, which specifically caters to people with salaries or with relatively large incomes. This division was created in order to better serve both the poorer and the wealthier clientele. The single unit catering to wealthier members accounts for between one-third and one-half of URCBAM's entire loan book. URCBAM also has special facilities for women members. URCBAM's approach to health cover is not based on health mutual as with ADRK and MUFEDE, but rather consists of a special loan facility dedicated to health-care costs. URCBAM's scheme is not insurance in the technical sense of risk pooling across individuals or households, but is nonetheless an instructive model for how MFIs can cater to the health-care needs of low-income households.

4.5.1. Basic elements

The mutuals coordinated by ADRK and MUFEDE operate according to broadly similar design principles. First, a group of households is formed into a mutual. Ultimately, each member household is issued a card identifying who precisely in the household is covered by the scheme. The mutual, with the assistance of the MFI, identifies what it sees are priority areas for treatment, determines the level of the monthly contributions, and determines rules for rationing the mutual's resources. Participation of the member households in the formulation of the mutual's policies is a fundamental tenet of mutuals, contributing to members' sense of ownership and responsibility. Meanwhile, the MFI negotiates agreements with local pharmacies and health-care clinics, such as conventions that allow the *ex post* settling of accounts. Once established, mutuals must assume a fair amount of responsibility for the day-to-day operation of their schemes, including keeping records and holding regular meetings. Each mutual maintains separate accounts, and has recognized officers such as a president and a treasurer. MFI coordinators play an important role in education, liaison with various role players, and assistance with financial management.

Procedures under the two systems are also similar. A member seeking treatment or medication presents himself or herself to the appropriate official, typically an MFI staff member. On the basis of the household's membership card, the official verifies the person's eligibility, and the person can then proceed either directly to the local pharmacy or to the primary care health clinic. Accounts are usually settled on a monthly basis. Some uncertainty exists as to what to do in the event of an emergency, for instance, where evacuation to a more distant hospital is necessary, and when there may not be enough time to approach an official for permission before seeking treatment.

Within these broad parameters, there is a fair amount of variation, in part reflecting the preferences and priorities of the original households with which the ADRK and MUFEDE developed the schemes. For the mutuals supported by ADRK – which focus on malaria, diarrhoea, difficult childbirth, respiratory ailments, and wounds and skin conditions – families can comprise two to 20 members, with a graduated monthly subscription according to household size as follows: 500 FCFA for a family of up to five members; 650 FCFA for up to ten members; 800 FCFA for up to 15 members; and 850 FCFA for up to 20 members. No distinction is made as to how many adults and how many children there are in a household. For the mutuals supported by MUFEDE, the presumption is of a core family unit of two parents and four children at a cost of 600 FCFA per month, but additional family members can be included for an extra 100 FCFA each. The mutual that MUFEDE is presently designing for Ouagadougou, however, will charge 2,000 FCFA per month per family of six, plus 500 FCFA per extra family member. Judging by recent household expenditure data (Fofack et al., 2001), these figures appear rather modest. On an annualized basis, the total contribution for a ten-member family under the more costly MUFEDE scheme represents roughly 1.6 per cent of total expenditure for the average rural household of that size. However, it may be that the typical household joining these schemes is poorer than the average.

Benefits also differ between ADRK's and MUFEDE's health mutuals. For ADRK, the scheme covers the entire cost of medications and consultations, but only in respect of specific categories of illness. For MUFEDE, the insurance fund pays 80 per cent of the cost of generic medications, only 40 per cent for prescription medications, and 100 per cent for consultations. Neither scheme has a monetary limit on how much a member family can draw on the fund in, say, a given year, though MUFEDE's mutuals allow for up to four "episodes" per year per member household. For ADRK, officials are confident that provisions are adequate, but just in case each mutual starts with a guarantee fund of 1 million FCFA. Moreover, both systems impose an initial "observation period" of three or four months from when member households start making contributions to when they may start making claims. The primary purpose of the observation period is to determine if there might be a pre-existing condition, which would then be ineligible for coverage through the scheme. As there is no direct health screening as a condition for acceptance, this is especially important. However, the observation period also has the function of building up the mutuals' reserves.

Thus far, the mutuals started by ADRK and MUFEDE are rather small, ranging between 24 to 40 member households. Of course, this implies a far larger number of individuals, in the case of the Pissila mutual reaching around 700. MFI officials indicate that they will work to enlarge the mutuals over time, aiming for 100 to 200 member households.

We turn now to URCBAM, which in late 1999 introduced a different form of health insurance. The insurance is essentially a special loan facility available to women members who are in good standing with their respective cooperatives. Premia are not obligatory, but the larger the premium one chooses to pay, the larger the loan one is eligible for towards health care, and the lower the interest rate. Members can subscribe to five different levels/categories. In the first category, one pays no premium, and the borrowing limit per year is 5,000 FCFA (US$8) at 10 per cent per annum. For the fifth level, the premium is 25,000 FCFA (US$34), and the borrowing limit is 50,000 FCFA (US$68), at an interest rate of 1 per cent. The parameters for all five categories are presented in table 4.1 below.

Table 4.1. Menu of categories for URCBAM's health-care loan facility (FCFA)

Category	Annual contribution	Borrowing limit	Interest rate on loan
A	0	5 000	10.0
B	5 000	15 000	3.0
C	10 000	30 000	2.5
D	15 000	40 000	2.0
E	25 000	50 000	1.0

As with the health mutuals, subscribers are issued with booklets, which identify themselves as well as eligible children, and are presented to health clinics and pharmacies in order to procure services or products. Upon becoming a member, one must pay a once-off fee of 1,500 FCFA in order to acquire a booklet.

Technically, the URCBAM scheme is not insurance in the sense of risk pooling among different people. It is rather a form of limited guaranteed liquidity for health-care purposes, where the level of liquidity guaranteed is greater than what one might have available in savings. The larger one's contribution is, the more liquidity one is guaranteed in the event of an unanticipated health-care cost. The contribution, furthermore, is not a true premium, in that it remains in one's account until one chooses to withdraw it. As an example, a subscriber belonging to the first category may need to borrow 4,000 FCFA for health-care purposes. By the end of the year, she must therefore repay the 4,000 FCFA, plus 400 FCFA in interest. Had the person subscribed instead to the second category, then the amount of interest payable on the 4,000 FCFA loan would have been 120 FCFA, which is thus one of the incentives to subscribe to the higher category. At the end of the year, the contribution of 5,000 can be withdrawn just like ordinary savings, or left in the account to guarantee borrowing eligibility for the following year.

Of the 2,400 women who have subscribed to date, the vast majority have joined the first category, i.e. with no annual contribution. Thus far, about 1,000 women have made use of the facility, at an average level of 3,000 FCFA each. Notwithstanding this low average, there has apparently been a shift between the first and second years of the scheme's operation towards higher categories, though the extent of this movement is unclear.

Any woman who is a member of one of URCBAM's savings and loan cooperatives is eligible to join the scheme. One consequence of this is that subscribers may be dispersed over a large area, meaning that arrangements have to be negotiated with a large number of pharmacies and clinics. Some pharmacies in fact have required a deposit from URCBAM, as a guarantee that URCBAM will honour its commitment to repay subscribers' expenses.

More so than with the mutuals created by MUFEDE and ADRK, URCBAM's system is an extension of its existing MFI business, and requires little additional administrative work. Interestingly, the small savings and loan cooperative Coopec-Galore in Ouagadougou, is exploring a similar system in conjunction with a nearby pharmacy.

4.5.2. Overall performance

Given that the health insurance schemes described above have been introduced so recently, it is not possible to evaluate their performance. In lieu of such an evaluation, we raise two questions about design.

The first question in respect of design is that of limits to claims. A surprising finding from the survey was that the health mutuals either impose no limits on claims, as with those supported by the ADRK, or define them in a rather loose fashion, as with the mutuals supported by MUFEDE, which limit the claims per member household to four "episodes". The principle of risk pooling is of course that in a given year, some households will need to draw more from the scheme than they put in, while other households – presumably most – will need to draw less than they put in. For certain kinds of insurance cover, for instance credit-life insurance or plough oxen insurance, the value of the asset insured is known, even if only approximately. However, with health care, "need" is often not an easily defined quantum. Different levels of service can be addressed to the same ailment, and there is often no obvious limit to how much effort can be expended in trying to ease discomfort or save one's life. Chronic diseases also raise certain problems, such as how to define an episode in, diabetes. Bearing in mind that the total annual contributions for an average sized mutual of 35 households would be in the order of 275,000 FCFA (US$370), it is not difficult to imagine that this could be absorbed through one or two costly procedures.

Commercial health insurers typically specify in advance either what procedures will be covered, or the maximum values of certain types of health-care services that can be claimed for, or some combination of the two. The MUFEDE and ADRK mutuals do this to some extent, for example, when the ADRK mutuals include only certain ailments to begin with. However, it may be that over time they will have to become more rigorous as to what they exclude and how they are limited. It may not be enough to specify a list of covered diseases and allowable treatments, but to set limits in monetary terms. In his survey of health mutuals in West and Central Africa (Atim, 2000) finds that monetary limits are not uncommon. He also claims that such limits are, at least in principle, a better method of controlling costs than deductibles (excess levels), which have the unfortunate effect of excluding the relatively larger number of small claims.

Another common feature of commercial health insurance schemes is that they provide a mechanism whereby one can appeal for a waiver from usual limits. That is, a point is reached at which needs have to be judged according to their unique merits. It may be that mutuals provide an even better mechanism for making such judgements, through the involvement of other members who share the cost but presumably also have compassion for their fellow member.

The second design question is that of linking insurance cover for health care to preventative care. None of the health insurance schemes studied for this report have established such a link. At the same time, some of the MFI staff interviewed raised the concern that mutual members seem to be self-rationing, meaning that they are showing an aversion to making claims upon the scheme for ostensibly minor problems, for fear of "using up" their episodes prematurely. An alternative approach adopted by some health-care schemes is to require periodic medical check-ups, so as to detect problems before they become more serious. Another alternative is to oblige members to participate in health education seminars. Notwithstanding the obvious costs involved, such approaches can ultimately save money and render the insurance scheme more robust.

4.5.3. The basis for setting premia

The introduction of all of the mutuals supported by ADRK and MUFEDE followed extensive feasibility analyses with the assistance of STEP and RAMS. Among other things, these feasibility analyses were necessary to establish the economic viability of the schemes, based in part upon indicative member contributions, i.e. premia.

However, it is "part and parcel" of the ethic of health mutuals that key parameters must be discussed and agreed upon. Thus for example, the feasibility study for ADRK's mutuals concluded that a financially feasible contribution, given the aims of the project, would be 10,200 FCFA (US$14) per year for a household of seven people. In fact, part of the feasibility study involved an examination of local households' actual expenditure on health care, and found that this was well in excess of the proposed 10,200 FCFA. Our own sample finds an average annual health-care expenditure per rural household of more than 28,000 FCFA. Even so, discussions with prospective member households led to the conclusion that the 10,200 FCFA was too high, and the scheme adopted a level of 7,800 FCFA per year for a household with ten members. In other words, what had initially been a technical determination was then subjected to a process of debate and negotiation that was only partially informed by technical considerations. This resulted in a situation in which the monthly contribution for a household of 20 members is only 170 per cent of the monthly contribution for a household of five members. MFI staff acknowledged that the final, agreed upon parameters (e.g. contribution levels relative to covered ailments), were not retested for feasibility.

Having said this, one of the principal virtues of the health mutuals is their readiness to make adjustments on an ongoing basis. It may be that what evolves after several years of operation is the best indication of what is a truly feasible premium. On the other hand, one must ask *why* the original mutual members pushed the contribution levels down so far below what they typically pay for health care. Interviews with some health mutual members (see section 5) revealed that while they believe the mutuals are an excellent idea, many have reservations as to whether they will actually work. It may be that the choice to start with a low level of contributions reflects not ability to pay at all, but rather caution. While this is perfectly logical risk averse behaviour, it raises the prospect that health mutuals may struggle to succeed, because the initial undercapitalization will hamper their effectiveness, which in turn will reinforce doubts that are already there.

4.5.4. Dealing with moral hazard and adverse selection

In respect of health insurance, it is useful to distinguish two possible meanings of moral hazard. The obvious meaning of moral hazard in the context of health insurance is that an insured person will be inclined to take fewer precautions against falling ill than he would have in that absence of that insurance. However, this would be saying that the main reason a non-insured person would take pains to stay healthy would be to avoid the expense associated with illness – a rather doubtful claim. Illness is its own punishment. To the extent people fail to take precautions anyway, it likely has to do with ignorance or myopia, and can therefore occur irrespective of whether the person is insured. Health schemes that include incentives to members to practice health maintenance (e.g. premium discounts for gym membership) are not necessarily fighting moral hazard, but rather trying to lower the cost of insurance by implementing complementary risk reduction strategies.

A second meaning of moral hazard may nonetheless be relevant in the sense that, once ill, a person having insurance will tend to be less concerned about the cost of treatment than a person with no insurance. Taking this "weak form" of moral hazard – that is, whereby insured people may tend to be insensitive to the costs of treatment – health mutuals may or may not offer a potent defence. Atim (2000) stresses that in smaller, more intimate mutuals, the main antidote against moral hazard is "social control", meaning the transparency of each member's behaviour to all other members. Avoiding unwarranted expense would appear to be an area in which such social control might be effective. Larger mutuals, on the other hand, must engineer strategies to keep moral hazard in check, such as co-payments and/or deductibles. As seen above, the MUFEDE-supported mutuals require co-payments, but the degree of cost sharing differs according to the type of expense. The co-payment for consultations is zero, that for prescription medication is very high (60 per cent), and the non-prescription medication co-payment requirements are intermediate (20 per cent). The virtue of this intelligent approach is that it does not discourage consultations – which provide a basis for choosing the appropriate care or treatment – but progressively discourages use of medications, the more potential they have for being used in excess. In other words, MUFEDE's differential approach to co-payments, however simple, appears ideally designed to counter the sort of weak form of moral hazard that, as Atim points out, can seriously contribute to escalating costs.

However, moral hazard can present itself in more perverse ways, self-rationing. By self-rationing, we mean the disinclination of a household to make use of its insurance scheme, for fear that the household's episode limit might be used up on relatively minor problems, leaving the household exposed if more serious health problems should occur before the end of the year. This leads to a form of moral hazard in the sense that a household might neglect itself, leading to more serious demands on the insurance pool later on – and ironically seeming to justify the self-rationing strategy it adopted in the first place. It must be stressed that there is no hard evidence that such self-rationing does in fact occur. Rather, this is an impression in the minds of some MFI staff, on the basis of mutuals that have been in operation for little more than one year. It is, however, a possibility to which one should be alert. One way to address the concern proactively, however, would be to change the manner in which member claims are limited, from the number of episodes to some other sort of measure, such that members are not discouraged from using the scheme to get assistance for small problems.

The URCBAM scheme naturally raises different issues. Strictly in terms of insurance principles, the URCBAM scheme in fact is rather bizarre; people are allowed to borrow money in order to help them treat a condition that might hinder their ability to repay. However, the fact that required contributions serve as deposits, which are 30 per cent to 50 per cent of the maximum loan amounts (except for the first category), provides a fairly potent check on moral hazard. Another interesting facet of this approach is that the "weak form" of moral hazard described above does not feature because the more costly one's treatment, the more one must repay. Thus the "insured" person herself has an incentive to prevent inflation of treatment costs. In part this is simply because the URCBAM approach is not an insurance in the narrow sense of interpersonal risk pooling.

Turning now to adverse selection, the health mutuals employ two mechanisms of relevance. First, as mentioned above, the observation period of three or four months before which a claim on the insurance fund can be lodged, has the effect of helping to expose people who are already ill. This is precisely the same mechanism used by funeral insurers in South Africa, who must defend against the possibility that people might try to sign up for insurance just when they become aware of having a serious illness (Aliber, 2001).

The other mechanism of relevance to adverse selection is the fact that families are insured rather than individuals. This has the effect of "averaging out" the risk among included family members. Also, healthy household heads who might not have thought to join for their own sake, see the value of joining if the whole family is covered. Interestingly, MUFEDE originally attempted to introduce a health insurance scheme based on individual policies, but found this to be unworkable. However, it is not clear whether or not the underlying reason had to do with adverse selection.

4.5.5. Interactions with other MFI activities

For the MUFEDE mutuals, at least one person from each member household must be a member of MUFEDE proper. For ADRK, there is no such requirement and, in practice, about half of all mutual members are also members of ADRC's financial cooperative. For URCBAM, only women who are members of one of its financial cooperatives are eligible to subscribe.

The common view of the three MFI-based health insurance schemes examined was that the introduction of health insurance would have a positive impact on loan repayment. After all, the main reason ADRK sought to introduce health insurance was the finding that borrowers were misallocating loans to pay for their own health care. In one instance, the view was expressed that having health insurance would mean that members were less likely to miss work, and thus would be more likely to be in a position to repay. Another view expressed was that, regardless of its real effects, the mere existence of the scheme would reduce the tendency of delinquent borrowers to blame their slow repayment on health problems. Whether any of these expectations will be borne out, one will not be in a position to say for another year or two.

4.5.6. Broader questions and future directions

The two distinct approaches to health microinsurance presented above each have a long list of advantages and disadvantages. Rather than enumerate all of these, we focus on the three factors that, above all, might determine which approach is more appropriate depending on the situation. The issue is not which approach is better, but rather which is more suitable given the target population as well as given the circumstances of the MFI itself.

The first factor we consider is the differential nature of the "cover" that is provided for under the two approaches. The fact that the URCBAM approach does not involve the pooling of risks across individuals accounts for one of its main limitations, which is that the amount of "cover" it provides is low. To put it in perspective, consider the 15,000 FCFA borrowing limit for category B. From the SME survey (see section 5) it can be deduced that 55 per cent of rural households spent more than this amount on health care in the previous year. Although it must be noted that the survey data captured expenditure for the whole household as opposed to just for women and children below the age of 13, it suggests that health-care costs for a woman and her children are quite likely to exceed this 15,000 level in a given year. Thus, particularly at these lower categories, subscribing to the scheme does not in itself prepare one for a costly treatment. Even if one subscribes to the highest category with a borrowing limit of 50,000 FCFA (which presently nobody does), that amount is still lower than what 12 per cent of the households spent on health care in the previous year. By contrast, depending upon its rules for determining what can be treated and up to what cost, the health mutual approach is not so limited, and thus it can accommodate more variation in health-care costs. The appeal of the URCBAM approach is thus not that it offers full cover, but that it offers cover that is sufficient in most cases, and which is especially well designed to cater to women who may wish to improve their access to health care independently of their husbands or other family members.

The second factor to take into account is social capital, meaning the extent to which existing relationships among potential members can be drawn upon to create “social control”. In other words, a group of near-strangers who by definition lack social capital, will not be suitable for a scheme which is premised on a meaningful degree of social control, however committed they may be as individuals to the scheme. A scheme like that of URCBAM may then be more suitable. On the other hand, where social capital is present, it can be used to good effect, and can overcome problems with which other insurance approaches often struggle.

The third main factor is set-up and running costs. Because of its emphasis on discussion and partial self-determination, mutuals are costly to establish and maintain, even though the costs are not all borne by the MFI. In concrete terms, mutuals usually require a detailed feasibility study, dedicated staff, and the creation of new procedures and protocols. Even then, an initiative to create mutuals in a given area may reach only a modest number of people that become involved as members. By contrast, an approach such as that of URCBAM is less costly to introduce and maintain, because it is a more straightforward extension of existing MFI activities, and it is simply less ambitious in terms of what it is trying to achieve. This also means that it is easier to scale up in size. The fact that URCBAM’s scheme has gained 2,400 subscribers in such a short period of time may also suggest that the transactions costs on the side of the members are less prohibitive.

4.6. Plough oxen insurance – the example of ADR-TOM

In Burkina Faso there are no functioning microinsurance schemes for property loss or damage. However, one very important defunct scheme was studied, and is discussed here at length. It endured for 26 years, and replaced plough oxen killed by disease. As will be discussed in the following section, the loss of livestock and particularly those used for animal traction is still very pertinent in rural Burkina Faso.

The plough oxen insurance scheme in question was started in 1969 by an NGO in Toma, in the province of Nayala, some 160 km to the north-west of Ouagadougou. The region has favourable agricultural conditions generally (though not as favourable as those further to the west and south), but is rather isolated, being accessible only by gravel roads, which during much of the year are passable only by four-wheel drive. The NGO was started in 1966 by a Dutch cleric and was initially known simply as “Projet Toma”. The main aim of the project – later renamed Association pour le Développement de la Région de Toma (ADR-TOM) – was to support the local peasantry through training and agricultural finance, but the project also undertook activities in promoting health of infants and mothers, and in the mid-1970s a general savings and credit cooperative was launched.

The centrepiece of the agricultural programme was the training of peasants in the more effective use and maintenance of plough oxen, outfitting peasants with oxen teams and necessary equipment, and providing veterinary care. Trainee members were organized into village associations, which served as the organizational unit for the insurance on an ongoing basis. The first trainees were inducted in 1969, and lending operations started shortly thereafter. The training-lending-insurance scheme grew steadily for the next two decades, reaching a high in the late 1980s of around 100 farmers assisted per year. In the period 1980-88, ADR-TOM equipped and insured between 4 per cent and 8 per cent or all farmers in the province. The plough oxen insurance scheme survived for such a long time due to strong management, the vibrant organization among members, and not least the fact that it was highly valued by the farmers themselves.

In the mid-1990s a leadership struggle resulted in a precipitous drop in loan repayment, a need to dramatically reduce core staff, and general dysfunction of the institution. The financing and insurance of plough oxen ceased in 1995. Today ADR-TOM is staffed by three salaried officials, plus three security guards. It provides local women with enterprise training and finance (with its own credit-life cover at 2 per cent of the initial value of the loan), and support for the introduction of health mutuals in conjunction with MUFEDE.

4.6.1. Basic elements

The plough oxen insurance scheme was based on the premise of the programme that one needs a pair of plough oxen to farm effectively. The loans were repayable within seven years, which is the normal working life of a plough ox. Only married men with children were eligible, and in any given year trainees were selected from one or two given villages and formed into groups, in which they would remain for the duration of the training and beyond. The "ideal" group was eight to ten members, but in practice groups varied from two to 74.

To qualify for a loan, a successful trainee would be required, at his own expense, to take selected oxen for a veterinary examination. If the veterinarian recommended the purchase, the farmer would be issued with a booklet for each ox, in which all treatments were to be recorded, and which would thus serve as a basis for demonstrating whether or not over time the farmer was taking reasonable precautions against diseases. Each group would have its own "assurance mutuelle" account held at ADR-TOM, which was treated as a dedicated savings account for the operation of the group's own insurance protection. Each group thus maintained its own booklet, in which all transactions into or out of the account would be recorded. The account was capitalized through annual contributions by each member, as well as occasional subsidies from ADR-TOM. In the early and mid-1980s, the annual member contributions were 5,000 FCFA, the premium of the insurance cover. Subsidies in the order of 8,000 to 14,000 FCFA were made into each group's fund, but seemingly were discontinued after 1982-83.

Upon the death of an animal, a veterinary examination was made in order to establish that the animal had not died due to the negligence of the owner. If the veterinarian issued a certificate clearing the owner of negligence, the owner would be eligible to draw from his group's insurance fund. Second, if the veterinarian deemed that the carcass of the dead animal was fit for human consumption, it would be sold, usually with all the members of the owner's group present as witnesses. Third, each of the members of the person's group would contribute a nominal sum towards the purchase of a replacement animal. From the mid-1980s, this was 500 FCFA per member. Fourth, the group leader would take responsibility for purchasing a replacement animal, taking together the proceeds from the sale of the carcass, the collection from the other members, and whatever was then still required from the group's insurance fund.

As of the mid-1980s, the whole package of two plough oxen plus equipment cost around 155,000 FCFA, of which about half was for the oxen. Given the annual contribution per member to the group insurance fund of 5,000 FCFA, the annual premium was in the order of 6 per cent to 7 per cent of the value of the insured pair, though arguably considerably more in later years as the animals aged and thus declined in value.

4.6.2. Overall performance

It is not possible to offer a rigorous evaluation of the ADR-TOM plough oxen insurance scheme, since only a handful of officials who were involved with the programme were still available for interviews, and since the records were very incomplete. Partial records could be found for the period 1981 through 1994, for some 75 groups comprising 900 members, which would have been the majority of participants over that period. However, the quality of the records was not sufficient to have an unambiguous idea as to what was going on in any particular group, nor for the scheme as a whole.

However limited the information, what emerges is a scheme that survived for a long period of time with only occasional injections of subsidies, and that became defunct for reasons external to the scheme's design. Interviews with officials as well as former members, confirmed that the scheme functioned well for many groups, but poorly for others. Not all members subscribed equally to the mutualist ethic, and many members struggled to grasp the principles of the insurance system. The records reveal that, for many groups, annual contributions were not made by all members on a regular basis at all, though it is not clear what incentives existed to encourage delinquent members to get up to date.

One of the biggest problems would appear to be that most groups were too small to provide adequate risk pooling. About one-third of the 75 groups for which information was available had seven or fewer members (comprising 12 per cent of all members), meaning that in one year they did not collect enough contributions to cover the cost of one replacement ox. Not surprisingly, group longevity was therefore much poorer for smaller groups. Of those groups having seven members or smaller, the average number of years survived was only 2.8 years, which is less than half the duration of a cycle, as measured by the expected lifetime of a pair of oxen. By contrast, for groups with eight or more members, the average number of years survived was 7.5 years. A simple econometric analysis shows that longevity was an increasing function of the number of members, but at a decreasing rate, with the optimal group size being well over the average of 12 members.

Taking data for all groups together, ox mortality is calculated at a mere 1.25 per cent, meaning that in a given year, only 1.25 per cent of all the oxen purchased under the scheme would die. This suggests that the premia charged were in fact far in excess of what was actuarially necessary. An actuarially reasonable (pure) premium would have been closer to 1,000 FCFA, or one-fifth of what was actually charged. Taking into account the 500 FCFA contributions from group members upon the death of a member's ox, plus the sale of the carcass, this figure could probably be reduced further to less than 700 FCFA. One can surmise that the high level of the premium was an attempt to "compensate" for the insufficient size of many groups, i.e. so that they could cope with the burden of replacing animals despite having few members to contribute. However, the consequence of this strategy, which in any event was not successful for many smaller groups, would be to leave larger groups with an excess of savings, which would very likely have had the effect of discouraging continued contributions from members. This results in overall inefficiency whereby, because of variable group size, some groups are under-insured and others are over-insured.

Notwithstanding the failure of a significant number of groups, the total level of "savings" in the other groups' insurance accounts as of 1995 – when most accounts were effectively frozen – was 5.9 million FCFA, enough to purchase more than 4 times as many oxen as would be expected to die in an average year. The implication is that if a minimum group size had been established (say around 15 or 20) or, even better, if a mechanism had been established to pool risk across groups, then far lower premia would have been possible and the whole scheme would have been more sustainable. Pooling risks across groups, and thus over a larger geographical area, would also have had the advantage of reducing the exposure to high covariant risks (i.e. due to contagion) within a village-based group.

The second major design flaw of the scheme appears to have been that the insurance carried on for the whole length of the loan, meaning the whole useful life of the oxen. The problem with this approach is that the risk of animal death increases substantially from the fifth year, meaning that the scheme is essentially attempting to insure against an event, which begins to approach certainty. Unfortunately, the data on hand do not allow us to demonstrate this fact. An alternative approach would have been to define what is a "premature death" for an ox, and only insure for this period, or to scale premia according to the age of the insured animals. On the other hand, it could be argued that the scheme was not simply an insurance mechanism, but a way by which group members could save up to replace an ox.

4.6.3. Perceptions of members and clients

As part of the SME survey, farmers were interviewed who had earlier participated in ADR-TOM's training-lending-insurance scheme. Without exception, the sentiment expressed was that the scheme had provided a valuable function, and that its insurance component was valuable in its own right. Two interviewees had been able to acquire replacement oxen by means of the insurance, and several others had belonged to groups in which other members benefited.

When asked if they would like to see the scheme be revived, there was also a consensus in favour. However, there were also two other common reactions. First, a number of interviewees stressed the importance of education, as they felt that many participants in the previous scheme did not sufficiently understand the scheme's principles. And second, a number of interviewees stated that if the scheme were to be reintroduced, then they should be obliged to participate. Presumably, this means that it should be obligatory for those accessing loans for oxen purchase, but in effect what interviewees were acknowledging was that, given the option, they would decide not to subscribe to the insurance scheme even though they believed it was a good thing, or would discontinue participation prematurely. As in many other situations, people's long-term sensibilities may be thwarted by shorter-term impulses, and a binding agreement provides a welcome protection against myopic decisions that contradict the better judgement of the longer-term perspective. The farmers' apparently absurd proposal – that they must be forced to adhere to a scheme for their own good – in fact relates to a profound and little appreciated dimension of economic behaviour. Implications for design, however, are not at all straightforward.

4.6.4. Dealing with moral hazard and adverse selection

The primary defence against moral hazard in ADR-TOM's plough oxen insurance scheme is the attention to veterinary care during the lifetime of the oxen, as well as the requirement of a veterinary examination upon the death of any oxen. In addition, the possibility of moral hazard – e.g. negligence in the care of one's oxen – was possibly diminished by virtue of the group aspect of the scheme. Presumably, group members, being from the same village, would have some idea of one another's animal husbandry practices. One feature of the scheme stands out as a clear guard against moral hazard, namely the mandatory presence of other group members when the carcass of an insured animal is sold. The rationale quite clearly is to ensure that the best price possible is obtained for the carcass, lest the group's common insurance fund be depleted more than what is strictly necessary.

Finally, the 500 FCFA contribution required of all group members upon the death of an ox, and which is put towards the purchase of the replacement ox, can be thought of as a variation on the instrument of the deductible that is common to many insurance contracts. Having a deductible is one way of forcing the insured party to bear part of the cost of the claim thus, in principle deductibles reduce moral hazard. The interesting thing about the ADR-TOM case is that the deductible is payable not just by the individual making a claim, but by the other members of the group as well, i.e. it is a “group deductible”. This adaptation would seem to have the purpose of accentuating the function of the group in controlling moral hazard.

The scope for adverse selection appears limited as oxen were purchased with a loan, which the farmer was obliged to repay regardless of their health status or early mortality. Moreover, the insurance was designed to pay out in replacement oxen rather than in cash. (The strategy of in-kind replacement rather than cash payouts is one of increasing interest to automobile insurers in South Africa and elsewhere, though the reasons are somewhat obscure.) The fact that the group leader assumes responsibility for selecting replacement oxen seems to be a deliberate step to ensure that they are of an acceptable quality.

In short, the scheme seems to have adopted a number of design features, which were exceptionally well suited to dealing with moral hazard and, to the extent necessary, with adverse selection. In this regard, similarities with the livestock insurance scheme practised by Small Farmer Cooperative Limited in Nepal should be noted. The interesting question would be how such features could be adapted if the scheme were modified: (a) to correct for some of the problems caused by insufficient risk pooling; and (b) to allow for coverage of any plough oxen, including those that are not purchased by means of loans through the NGO.

4.6.5. Interactions with other MFI activities

As with the credit-life schemes, the plough oxen insurance was mandatory for those borrowing money in order to purchase those oxen. However, in contrast to the case of credit-life insurance, the primary purpose seems not to have been to protect ADR-TOM as a lending institution, but to promote the sustainability of the entire scheme.

The irony, however, is that it was the crisis in loan repayment in the mid-1990s which led to the failure of the insurance scheme. The exact cause remains obscure; those interviewed could not explain why precisely the poor repayment led to the demise of the insurance scheme. Farmer participants may not have drawn a clear distinction between repaying their loans, and honouring their obligation to make the annual subscriptions to their groups’ insurance fund.

4.6.6. Broader questions and future directions

There is ample evidence to suggest that the scheme run by ADR-TOM served an important function, and that there continues to be an important role for such a scheme, in the Toma region as elsewhere. There is also reason to believe that there is scope to significantly improve on the ADR-TOM insurance scheme, through a small number of key adjustments. With the growing sophistication of Burkinabé MFIs, it may indeed be a good time for just such an initiative. Unfortunately, ADR-TOM remains in too weak a state for such an ambitious endeavour.

Another question is whether the insurance scheme could be divorced from a lending programme. Provided the premia are reasonable, the demand for such a product could be large indeed. There is no reason why such a scheme could not also accommodate risks to other animals, e.g. donkeys, or possibly other cattle. Such a scheme could not successfully be extended to cover loss of livestock through theft. Although livestock theft is also a problem, and seemingly a growing one, the moral hazard problems are less tractable, as it is difficult to establish whether an owner took reasonable precautions.

A further question is what role "village groups" might serve in such a scheme. If, as suggested above, risk pooling must be extended beyond small village groups for the scheme to be affordable and sustainable, then might there still be a function for groups in addressing, say, problems of moral hazard and adverse selection?

5. Risk profile and potential for insurance among SMEs

5.1. Introduction and methodology

The purpose of the SME survey was to understand the risks faced by SMEs, to determine how SMEs seek to manage those risks, and to infer their potential demand for microinsurance products. The survey consisted of one-on-one interviews with 78 SME operators, both rural and urban. The questionnaire instrument is an adapted version of the instrument employed in South Africa.[1]

Only MFI clients who were SME operators were interviewed. No effort was made to ensure a representative sample of different types of SMEs. However, by virtue of splitting the interviews between rural-based and urban-based MFIs, some balance is achieved between rural-based and urban-based SME activities. On four occasions, people with regular salaries were interviewed on the grounds that they also ran an SME on the side. About 12 interviews were conducted with the assistance of an MFI staff member who acted as interpreter.

5.2. Profile of SME operators and SMEs in the sample

The composition of the SME sample is summarized below according to gender of the operator and location (rural/urban). Overall, 44 per cent of the sample is rural and 43 per cent female. The sample is therefore not in proportion to the composition of the country's population, which is 82 per cent rural. The under-representation of rural women in particular relates to the fact that only male members of ADR-TOM were interviewed.

Table 5.1. Gender and location composition of the SME sample

	Female (%)	Male (%)	Female and male (%)
Rural	14.1	29.5	43.6
Urban	29.5	26.9	56.4
Rural and urban	43.6	56.4	100.0

The sample composition is given in more detail below, where numbers of female and male interviewees are shown in conjunction with the MFI to which they belong. Interviews with members of URCBAM were so few due to logistical problems that occurred during field work.

Table 5.2: Sample composition according to MFI

	MFI	Female	Male	Female and male
Rural	ADRK	7	8	15
	ADRTOM	0	13	13
	URCBAM	4	2	6
Rural total		11	23	34

[1] See Social Finance Programme Working Paper No. 31.

	MFI	Female	Male	Female and male
Urban	CISSIN	5	11	16
	MUFEDE	8	5	13
	PRODIA	10	5	15
Urban total		23	21	44
Rural and urban		34	44	78

The average ages of respondents are shown below according to gender and location. The relatively high average age for rural men relates to two things. First, men in the sample who were members of ADR-TOM tended to be older because they were selected on the basis of having participated in the plough oxen insurance scheme, which terminated about six years ago. Secondly, the demography of Burkina Faso is such that men and women in the 20-35 age range are relatively under-represented in rural areas because they are seeking economic opportunities in urban areas or in other countries.

Table 5.3. Average age of SME operators, by gender and location

	Female	Male
Rural	43	51
Urban	38	32

Turning now to the SMEs represented in the sample, there is a fairly stark division between rural and urban areas, whereby the former are dominated by agriculture – including cultivation and animal husbandry – and the latter is dominated by commerce.

Table 5.4. Composition of sample according to type of primary SME activity

	Commerce	Agriculture	Services/Manufacturing	Salaried/Professional
Rural	2	31	0	1
Urban	35	0	6	3
Total	37	31	6	4

"Commerce", however, is a very diverse category, including for example long distance merchandize trading to and from other West African countries, hawking of fruit and vegetables from street stalls, and selling of perfume or computers from small roadside shops. This diversity of commercial activities is evident also in the wide disparities in the amount of capital involved, and, as will be discussed below, in terms of the different types of exposure to risk that are experienced.

The category of "services and manufacturing" is also varied, including such activities as plastering, small engine repair, food preparation, and offering public telephone and facsimile services. Sometimes, the distinction between commerce and manufacturing is not clear, as for example in the case of one woman who prepares fruit juice in her home, which is then sold in the streets by her children.

Among rural respondents, it was common to have a secondary non-agricultural activity, particularly among women. In some cases, this activity is pursued only during the dry season when cultivation does not occur. In other cases, where the woman's agricultural pursuits were more in terms of raising animals than cultivation, the secondary non-agricultural activity might carry on throughout the year. In our sample, the most common secondary activity among women was the preparation of traditional millet beer. Other secondary activities practiced among men and women included the preparation of groundnut oil, artisanal gold mining, and services such as tailoring and bicycle repair.

Respondents were not asked about their income or wealth, however, they were asked to identify their main household and work-related assets. While the material wealth of respondents clearly varied according to their stage in the life cycle, the starker contrast was that between urban and rural dwellers. Among urban dwellers, for example, 45 per cent had at minimum either one motorcycle or one car, and another 18 per cent had a moped. Virtually all urban households also had refrigerators and televisions, while at least half had videocassette recorders. A handful of urban respondents had cellular phones. Rural respondents, on the other hand, were much less likely to have motorized transport, with only 6 per cent having a motorcycle, and another 6 per cent having a moped. Many rural households, however, did have bicycles. Rural households did not have appliances, not least because of the lack of electricity. The main assets of rural households were livestock and farm equipment such as ploughs and donkey carts, though only one household reported a herd of more than five large stock unit equivalents. This relative poverty of rural dwellers is confirmed by household survey work, which established that in 1998, 16 per cent of urban households were below the poverty line versus 51 per cent of rural households, and that the average household per capita household expenditure among rural households is only 31 per cent of that of urban households (Fofack et al., 2001).

5.3. Perceptions of risk and the role of SMEs in household maintenance

The purpose of this section is to reflect on perceptions of risk, and to relate this to the role of SME operators in household maintenance. At this point, we will discuss perceptions of risk in a general way, whereas in the next section we will proceed to discuss respondents' perceptions of risks particular to their SME activities. The purpose of this broader contextual discussion of risk perceptions is to better understand the context in which SMEs operate. Not surprisingly, general household risk and SME risk are closely intertwined. In terms of designing microinsurance to help the SME sector, both general risks and SME-specific risks must be considered, as well as the relationship between the two.

The question of general perceptions of risk was approach in a roundabout manner. First, respondents were asked if they considered saving money to be important or not important. Not surprisingly, all respondents answered that saving money is important, if not extremely so. Respondents were then asked, without prompting, to indicate why they consider it important to save money. Excluding those answers that were too vague to categorize (about 15 per cent), the main answers were as follows:

Table 5.5. General worries mentioned by respondents

Reasons for saving money	No. of respondents (%)
Crises	82
To cope with lean times	15
To be prepared for the future	15
To enlarge the SME	9
To be eligible for loans	9
Others	9

"Crises" were often explicitly identified as illness in the family, but just as often were not specified. As will be shown below, a crisis could well consist of the sudden loss of a productive asset that would result in a shock to one's ability to derive an income. The answer "coping with lean times" relates to the fact that business income or returns to farming are by their nature quite variable. For rural interviewees, one of the main purposes of trying to save money is to be prepared for bad agricultural years when food purchase cannot be avoided. (It would appear that cash savings have, to some extent, replaced food storage, although granaries are still very much in evidence throughout the countryside.) The more vague response of wanting "to be prepared for the future" could presumably mean either crisis or lean time or both. In any event, having savings on hand – a form of "self-insurance" – is seen as a particularly important means of preparing oneself against the consequences of a sudden, unforeseen crisis. This provides an initial clue as to what types of actual insurance might be most attractive to low-income SME-dependent households in Burkina Faso.

In a similar vein, respondents were then asked to indicate what were their greatest worries. This provided a bit more detail, allowing us to begin to distinguish the types of vulnerability experienced by rural versus urban dwellers (see table 5.6 below).

Table 5.6. General worries mentioned by respondents

	Number of respondents (%)	
	Rural	Urban
Illness/injury in family	62	39
Drought and/or famine	50	0
Loss of or damage to economic assets	15	25
Business failure/poverty	6	27
Not enough money to meet obligations	9	0
Death	6	5
Retirement	6	5
Other	3	3

Obviously a number of these categories are overlapping, and many more are linked by important causal relationships. For example, in rural areas, where agriculture forms the principal economic activity of 98 per cent of the population, own production is the main source of household food supply. Many rural respondents linked the risk of illness with that of insufficient production. On the one hand, a lack of rain can mean insufficient food, which in turn means a higher chance of getting ill or being susceptible to epidemics. On the other hand, falling ill can prevent one from working, which means less food on the table even in a good agricultural year. What this shows, among other things, is the complexity of the links between general household risk and SME-related risk.

One common feature of the results for rural and urban respondents is the importance of the loss of economic assets. For rural dwellers, this generally meant the death or theft of livestock, or more temporary problems such as livestock illness and crop infestations. For urban dwellers, the concern was with theft or damage to inventory, tools, or machinery.

One interesting category of worry that is worth mention is that of 'not enough money to meet obligations'. The way this problem was usually phrased was that the respondent feared a situation in which the need to pay for a baptism or marriage put a strain on household resources. This is revealing in two respects: first, it shows just how tenuous such a household's situation must be, given that the meeting of normal familial obligations could contribute to economic deprivation; and second, the fact that paying for funerals was not once mentioned in this regard, may be a clue to the lack of potential demand for funeral insurance. Of course, Burkina Faso is far from culturally homogeneous, thus this inference is quite tentative.

5.4. Perceived SME-related risks

We turn now to the perceptions of risk that are specific to one's SME. Respondents were asked to identify, describe and rate these risks according to various dimensions such as likelihood and severity.

Table 5.6 summarizes the main SME-specific risks that were identified. Results are partitioned between rural and urban respondents, and for rural respondents, risks are further partitioned between those that pertain to agriculture and those that pertain to other SME activities pursued by rural dwellers in the sample. For urban dwellers, no effort is made to distinguish between those involved in commerce and other activities.

Table 5.7. SME-specific risks identified by respondents

	Risk	No. of respondents (%)
Rural		
Agricultural	Drought	100
	Livestock sickness	25
	Illness of self/family	19
	Theft of livestock	13
	Crop pests	6
	Other	6
Non-agricultural	Market risk	83
	Injury to self/employees	33
	Clients do not pay	33
Urban		
	Market risk	42
	Injury to self/employees	38
	Clients do not pay	33
	Theft of equipment, etc.	25
	Illness of self/family	17
	Equipment failure	8
	Other	4

One general observation is that, even though prompted to identify risks that were specific to their income earning activities, respondents did not necessarily distinguish these from general household risks, in particular illness.

We elaborate upon most of these risks below.

5.4.1. Illness of self or in the family

The link between health and ability to pursue productive activities was explored through a series of questions. First, respondents were asked if they had missed any days from work in the previous 12 months and, if so, how many. Just over one third (36 per cent) said that they had missed some work due to illness, ranging from three days to basically the whole year. Excluding the one person who missed the whole year, the mean number of work days missed was 29. Then, the respondent was asked to explain the consequences of his or her absence from the enterprise. The consequences varied, though generally were negative. In a few instances, employees, siblings or children were able to carry on with the enterprise with little problem or loss of income. Where the person was ill for only a few days, for example, her children might be able to carry on selling whatever stock was ready for sale, as was the case with the woman who prepared groundnut oil, and who was only ill for seven days. But for longer illnesses, the absence of the principal was almost always very damaging. For one man involved with commerce in construction materials, employees carried on the business during his 48-day absence, but his unavailability for travelling to secure better deals hurt profits. For a rural woman who was ill for 45 days, her illness did not negatively affect crop production on the family plot, but her own plot was totally neglected, with eventual consequences for her personal food supply.

Sometimes illnesses affect SME income indirectly, as when the SME operator is obliged to miss work due to the need to care for a sick child or parent. About 8 per cent of the sample missed work under such circumstances. This is more likely to happen to women than men. Male respondents pointed out that when a child was ill, the child’s mother would take the child to the clinic or tend to the child in the home.

5.4.2. Injury to self or employees

Injury to oneself or of an employee rates very high as a risk among both urban SME operators and non-agricultural rural SME operators. The diversity of types of injuries is large. To name a few: those involved in long distance commerce fear involvement in road accidents; a vendor of computers and computer supplies fears damage to eyes or lungs from refilling toner cartridges, as well as moped accidents when making deliveries; a repairer of electrical appliances fears employees will come into contact with live wires; a restaurateur is concerned with kitchen accidents to employees; and in rural areas, women preparing traditional beer fear scalding from spills of boiling liquid. Employers assume financial responsibility for health-care costs associated with on-the-job accidents, but also bear the costs when employees miss work on account of their injuries. There is, however, little concern for liability in the sense of being the target of a lawsuit.

For the most part, injuries that are feared by respondents fall into two categories. On the one hand are accidents that would be very serious if they occurred, but are not considered very likely. For example, women respondents who made and sold traditional beer knew of women in the area who had suffered greatly and missed long periods of work due to scalding, but these events were rare and it was considered very unlikely they would suffer the same fate. On the other hand are accidents that are very probable but not serious, such as minor cuts to the hands from kitchen knives or hand tools.

The main exception would appear to be road accidents, which are perceived as both serious and likely. One respondent involved in long-distance commerce had been involved in two life-threatening accidents, which also had major financial implications due to destroyed merchandize. Two other respondents involved in long-distance commerce, and one using local transport, had never experienced an accident but thought it probable that they eventually would.

5.4.3. Market risk

The greatest risk reported by urban SMEs is the so-called "market risk". Slack demand for one's merchandize or services, low prices, inability to move perishables quickly enough, the cost-price squeeze, etc., are ways in which the vagaries of the market are experienced by SME operators. Market risk is a major concern even in rural areas among women selling traditional beer, who on the one hand may experience a dearth of customers, or on the other hand may encounter high millet prices or difficulty accessing enough water.

Perhaps the significant feature of market risk is not that occasional troughs bring down the average return of one's enterprise, but rather that it is difficult to predict when the troughs will occur and how long they will last. Market risk is of course one of the main reasons for which SME operators self-insure through savings. By virtue of making savings instruments available for SMEs, MFIs are therefore playing a valuable role in helping SMEs sustain themselves through difficult periods. It is unlikely that MFIs could offer an insurance product, per se, that would cover market risk.

5.4.4. Clients do not pay

One of the most consistent and aggravating risks encountered by those involved in commerce or provision of services is the non-payment by clients for goods or services they have requested on credit. Entrepreneurs loathe refusing such requests, for fear of losing valuable business. But they knowingly incur a risk in doing so, because enforcement of payment is so difficult. A few examples are illustrated: a rural woman who prepares and sells traditional beer says that out of one pot, three out of ten customers will ask for beer on credit. Some of them will either take a long while to repay, or will fail to repay altogether. (With total costs per pot of 10,000 FCFA and maximum revenue of 13,500 FCFA, in fact she only manages to break even if non-payment does not exceed 25 per cent.) A plasterer in Ouagadougou states that clients are apt to complain about the quality of his work at the conclusion of a job as an excuse for not paying; and a man selling truck parts reports that he is presently owed 500,000 FCFA (US$675), even though he knows where the offending clients live. An electronics vendor in Ouagadougou says that when the economy is performing poorly, half of his clients ask to purchase on credit, and one quarter of these either fail to pay or take a long time to do so. A man who repairs moped engines in Ouagadougou reports that although most of his clients are public servants and thus have secure employment, enforcement of payment is very difficult, and he is still owed 250,000 FCFA (US$335) for work undertaken in 2000.

The frequency with which this problem plagues SMEs suggests that perhaps it should be subsumed within market risk. The difference however is important, in that market risk has to do with impersonal market forces, whereas the failure of clients to pay relates to an inability of the SME operator to enforce implicit contracts with clients. Nonetheless, this risk has in common with market risk that it tends to be modest in severity (i.e. it is not such as to force a sudden closure of one's enterprise), but very high in likelihood.

5.4.5. Drought

The risk of drought quite simply dominates rural life. The perceived links between drought, famine, and illness were mentioned above. In severe droughts, livestock are also badly affected, reducing households' wealth and thus future security.

Rural respondents were asked to indicate the frequency and consequences of drought, bearing in mind that there is no such thing as a standard drought, and that poor timing of rains can sometimes be as damaging as insufficient rain. In any event, responses ranged from as infrequent as one in ten years for a severe drought, to as frequent as six in ten years, with the most common response being four or five times in ten years. In other words, drought is a certainty, though when it will next occur is impossible to know. In most cases, a drought was described as an event that reduced output by more than half and possible as much as 75 per cent. Some respondents furthermore stated that over time they have been experiencing droughts more and more frequently, and this was attributed to deforestation and soil degradation. This is consistent with the view of macro-view of the agricultural environment in the Sahel, as discussed above. Another frequent comment is that, due to growing population pressure, people's fields have been getting smaller and more fragmented over time, and farmers have to travel further and further from their villages in order to access enough land.

5.4.6. Livestock sickness

The possibility of livestock sickness was the second most frequently mentioned agricultural risk. The greatest concern is the sickness and possible death of animals used for traction, the most valued of which are plough oxen. The consequences of not having a reliable pair are twofold: first, one usually cannot plant as large an area, meaning less food or cash crop is harvested; and second, one cannot plant as quickly once the rains have started, meaning that one is more vulnerable to the possibility of a shorter than usual rainy season. In current prices, a pair of plough oxen represents a substantial cash outlay, being around 17 per cent of average annual expenditure for a household of ten persons. Thus the death of an ox means an immediate and significant shock to household wealth. The death of a draught animal in general is a significant risk, which is why, throughout the region, many rural households have gradually adopted donkeys for traction purposes, which are less effective but hardier than oxen (Blench, 1999). This thus appears to be a classic example of how, for lack of an appropriate risk mitigating system, a less remunerative production technique is substituted for a more remunerative one.

In the present survey, there is a clear disparity between the two rural areas that were visited, namely the relatively marginal north central region, where ADRK and URCBAM are located, and the somewhat more favoured north-west region, where ADR-TOM is located. In the north central part of the survey, only one tenth of rural households had any plough oxen, though most had one or two donkeys and a plough. By contrast, 60 per cent of respondents from the north-west part of the survey had at least a pair of plough oxen, and those that did not relied on donkeys. The fact that there is a higher incidence of oxen ownership in the north-west sample relates in part to the better conditions for keeping them, but also presumably to the former activities of ADR-TOM. Perhaps more striking than the disparity between the two regions, is the fact that of the members of ADR-TOM interviewed, 40 per cent who used to have a pair of plough oxen no longer do, testament to the important role that the ADR-TOM scheme played when it still functioned.

5.4.7. Livestock theft

Theft of livestock occurs with less frequency than the loss of livestock through disease, but the impact on the household is roughly the same. Theft appears to be a growing problem, because livestock must be led further from one's home in order to access sufficient grazing and as school-aged children are less available for tending them. Two of the men interviewed report that they pay a Peul herder 200 FCFA per month per head of cattle to guard their herds, in large part against the possibility of theft. Interestingly, the annual cost therefore of guarding one pair comes to about 5,000 FCFA (US$6.50), the same cost that used to be charged for livestock insurance by ADR-TOM (though less in real terms).

Of course, plough oxen and other cattle are not the only animals apt to be stolen. The threat of donkey theft was mentioned in particular, presumably because of their value as draught animals.

5.4.8. Theft of equipment, inventory, cash, etc.

Urban SMEs also face the risk that their productive assets might be stolen, but in addition the threat extends to inventory and cash. In terms of the theft of cash and minor items from inventory, the threat appears greatest from one's own employees, but more serious productive assets – such as sewing machines, tools, appliances – are more likely removed by burglars. There is little or no danger of theft by means of direct personal threat or assault, and theft of automobiles and trucks is rare. A more sophisticated form of theft, however, does occur, whereby people use false identity documents to obtain goods on credit, and then disappear without trace.

5.4.9. Equipment failure

By "equipment failure", we mean the falling into disrepair of essential equipment. For example, a woman who sells cold beverages on the street struggles when the freezer she uses for making ice breaks down. Vehicles are the other area in which this tends to be a problem, as with a man who owns a truck in order to make deliveries of gravel and sand to construction sites. The problem then is two-fold: first, the SME may not have the cash on hand to have the equipment repaired or replaced; and second, in the meantime, revenues may be reduced either partially or completely.

5.5. Risk management practices employed by SMEs

One of the purposes of the interviews conducted with SME operators was to find out what risk management practices they employ in order to cope with the risks they face as entrepreneurs. For each of the risk categories that has been discussed above, table 5.7 summarizes risk management strategies reported by SME operators that they either use presently or have used in the past. Also, where appropriate, we venture some of the main costs or disadvantages of these strategies, although this is not to suggest that the existence of a cost or disadvantage means that the practice is not valuable, or that there are necessarily better alternatives.

Table 5.8. Declared risk management practices of SMEs

Risk	Risk management practices	Costs/disadvantages
Illness of self/family	■ self-insure through saving money	■ can tie up capital needed for investment; exposure of money to theft, etc.
	■ join health mutual or insurance scheme	■ obligation to make regular cash payments; such opportunities still very scarce on the ground
Injury to self/employees	■ maintain a reserve fund to cover medical costs, i.e. self-insure	■ can tie up capital needed for investment; exposure of money to theft, etc.
	■ invest in safer equipment	■ can have significant cash costs
	■ prudence and training	
Market risk	■ self-insure through saving money	■ can tie up capital needed for investment; exposure of money to theft, etc.
	■ diversify economic activities	■ can reduce efficiency

Risk	Risk management practices	Costs/disadvantages
Clients do not pay	■ refuse to sell/serve on credit ■ require character references ■ gather personal knowledge about client, e.g. place of work, amount of salary, place of residence ■ have client sign a promise ■ report person to police	■ will lose clients ■ can be costly, ineffective ■ can be costly, ineffective ■ can be difficult or impossible to enforce ■ police not usually effective, and can antagonize gangs
Drought	■ self-insure through saving money ■ plant multiple fields in locations with different soil conditions ■ diversify crops planted ■ improve water retention properties of soil, e.g. by constructing contour bunds ■ pursue non-agricultural activities	■ can tie up capital needed for investment; exposure of money to theft, etc. ■ can be costly in terms of time ■ can lower average aggregate yield ■ very costly, long-term investment
Livestock sickness	■ participate in livestock insurance scheme ■ switch to hardier types of livestock ■ maintain good veterinary care of stock	■ no longer exists, and never existed in most parts of the country ■ less efficient for ploughing ■ lack of knowledge; cash costs
Livestock theft	■ pay herder for surveillance	■ can have cash implications
Theft of equipment, inventory, cash, etc.	■ place valuables in secure place when absent ■ take precautions against burglary, e.g. install burglar bars ■ join security scheme ■ supervise employees better; root out dishonest employees	■ often not adequate or possible ■ can have significant cash implications ■ can have significant cash implications ■ difficult to do systematically
Equipment failure	■ purchase backup or additional units, to ensure can maintain cash flow	■ can have significant cash implications

A variety of risk management practices is by SMEs, including both risk reduction and risk coping strategies. Some of these risk management practices have an explicit price tag, while others impose a cost by means of lost productivity or delayed investment. Some might be ideal approaches to managing the particular risk in question, and others are second-best solutions that are adopted by virtue of the fact that superior options (e.g. microinsurance) are just not available.

Self-insurance through saving money is perhaps the most all-around potent measure that SMEs employ to manage their risk. Notwithstanding its costs, it has the virtue of being simple and being within the control of the SME operator herself. One way of appreciating the role of MFIs is that, in providing a secure place for people to keep their savings and sometimes even providing a return on those savings through interest, they are improving on the traditional mechanism of self-insurance. One vivid example of this came from a rural dweller who indicated that before MFIs were around, household heads would literally bury their money in the ground to keep it safe. There were a number of dangers in this, however, not least that upon the death of the household head, the family might never manage to find the spot where the money was buried.

5.6. Use of attitude towards, and potential demand for insurance

The SME survey attempted to gauge the extent of use of insurance among respondents in two ways. First, respondents were asked whether they were insured, or had contemplated getting insured, in respect of each SME-related risk they had identified. Then, the respondent was also asked if the household carried any other forms of insurance, and if so what and why. And third, for those respondents not having any form of insurance, the respondent was asked about his or her awareness of insurance and attitudes towards it.

5.6.1. Use of commercial sector insurance

Excluding participation in microinsurance schemes described above (i.e. through health mutuals or the URCBAM scheme, credit-life cover, etc.), about one quarter of respondents indicated some use of commercial sector insurance. All of these instances were urban, thus the share of all urban respondents having some form of insurance was around 40 per cent. Of these, about three quarters had the compulsory third-party liability insurance for vehicle owners. For a car owner, this amounts to around 70,000 FCFA (US$95) per year, and for a truck owner, around 200,000 FCFA (US$270) or more. Apart from third-party vehicle insurance, there existed a few instances of life insurance, at around 60,000 to 70,000 FCFA (US$81-95) per year, and one instance of all-risk business insurance at 100,000 FCFA (US$135). The fact that a few SME operators do have voluntary insurance policies, and that these are expensive relative to, say, the average household income, probably reflects the fact that the SME sector is quite heterogeneous, with some SMEs operators being relatively wealthy.

5.6.2. Attitudes towards and awareness of insurance

Among the larger number of respondents who do not have any sort of insurance, reasons and attitudes were mixed. Twenty per cent stated that insurance is too expensive, or in the words of one respondent, is just for “civil servants and rich people”. This statement, however true, seemed in many cases to be more of an assumption or impression, than an observation. About 7 per cent expressed suspicion of insurance companies, usually based on a story they had heard about someone whose claim was not paid out.

However, the most common response (27 per cent) among those not having insurance with a commercial insurer was that they did not know enough about insurance, and needed to be informed. This message was often expressed as a general appeal that more information about how insurance works should be provided to them, for instance by the MFIs. However, this apparent show of interest in learning more about insurance contrasted with evidence of apathy or passivity. For example, respondents who were members of MFIs that had started health mutuals but who did not themselves belong to these mutuals, usually had little idea as to how the mutuals worked, what they cost, etc. They had often “heard about” these schemes, but had clearly not made the modest effort to ask MFI staff about them. Similarly, many respondents who were borrowers were aware of their automatic credit-life cover, but few had a clear idea how it worked or interest in learning more.

5.6.3. Demand for insurance

By way of trying to gauge the demand for insurance, respondents were asked if they had any suggestions for the MFI regarding insurance. Many respondents stated that they would like to see their MFI introduce different types of insurance (mainly life, health, and livestock). However, it is difficult to know how to interpret these statements, as they often appeared to be said out of politeness to the interviewer. Taken together with the observations made above about lack of knowledge about insurance, the implication is that the demand for microinsurance is largely latent, however great its potential for SMEs may be. In other words, the demand for insurance does not articulate itself because many people are so unaware of the potential benefits of insurance that, even given the opportunity, they do not attempt to find out more about it. As some of the MFIs are quick to point out themselves, what this implies in turn is that any MFI contemplating the introduction of new microinsurance targets must expect to expend a large amount of effort on marketing and education.

For the same reason, efforts to ask respondents about their interest in specific kinds of insurance were also unsatisfactory. For example, when told about how life insurance might work and asked for a reaction, the most typical response was a non-committal “it sounds like a good idea” but “no one has explained it”. The notable exception was in interviews with members and former members of ADR-TOM, who had a palpably genuine interest in seeing a resurrection of their plough oxen insurance scheme.

Potential demand for funeral insurance is quite unclear. There is no culture of burial societies, though people do report that funerals tend to deplete household resources. The consequences of the death of a breadwinner can be especially difficult, and something for which households are very ill prepared. This might imply a potential demand for life insurance. Household heads who were interviewed indicated that they could see the value in such a scheme, but enthusiasm for it appeared to be tempered by its unfamiliarity.

5.6.4. Role of MFIs in insurance provision

As mentioned above, respondents often feel that MFIs should educate them about insurance. Beyond this, respondents clearly see a role for MFIs in providing the insurance itself, and would be happy to see MFIs introduce a whole range of insurance products. Underlying this are two considerations: first, all those who expressed suspicions about commercial insurance companies indicated that they would however trust their MFI if it were to offer insurance; and second, it would appear that respondents tend to see the MFI as their all-around financial services institution, and would prefer not to go to different institutions for different services. Thus, commercial insurance companies are probably correct that the way to this clientele is through the MFIs. MFIs clearly have an opportunity to exploit this trust among their members.

5.7. Summary of findings from the SME survey

SMEs in Burkina Faso are confronted with a formidable array of risks. These compound risks that are frequently experienced by low-income households, such as the risk of falling ill. In fact, this distinction between general household risk and SME-specific risk is in large measure a false one, as these two spheres of life are closely intertwined.

Given the predominant role of agriculture among rural SMEs and commerce among urban SMEs, there are some important differences in terms of the types of risks that are encountered. In particular, small-scale farmers’ most significant risk is drought, for which there is no analogue among urban entrepreneurs. However, there is also a large degree of similarity in the types of risks faced, not least illness, market risk, and loss or destruction of assets. Some risks are particularly severe because of the informal nature of the economy in which the SMEs operate, most importantly the difficulty in getting payment out of customers that purchase on credit.

For a number of important types of risk, the primary defence is self-insurance, meaning the holding of money or wealth that can be disposed of in times of need. While this is a fairly efficacious way of dealing with risk, it also imposes large costs, not least hindering investment to expand one’s enterprise. In other cases, risk management practices are employed that more carefully tailor to the problem, such as livestock supervision by paid herders, installation of burglar bars, or joining a health insurance scheme.

With the exception of recent or former schemes offered by MFIs, use of insurance appears to be very limited, and non-existent in rural areas. Among those that do have formal sector insurance, the majority are obliged to by virtue of compulsory third-party liability insurance. In general there is a lack of knowledge about and interest in insurance, though one can infer that there may be a large latent demand for particular kinds of insurance, such as livestock, health and life insurance.

MFIs have a clear role to play to stimulate the demand for microinsurance products. MFIs are trusted by SME operators and have a presence that allows them to sensitize large numbers of people to the meaning and value of insurance.

6. Implications and conclusions

6.1. What Burkina Faso's MFIs teaches us about microinsurance

MFIs in Burkina Faso presently practice a limited variety of types of microinsurance, namely credit-life and health insurance. However, within these broad types there is diversity and experimentation. In addition, Burkina Faso was home to one of the few known livestock insurance schemes on the continent; although that scheme is no longer functioning, its 26-year run has left behind a number of useful lessons.

Here are some of the more general lessons learned from an appreciation of Burkina Faso's experience with microinsurance:

- Microinsurance schemes operate and flourish even where the target population is extremely poor.

- Microinsurance schemes can perform a valuable function and be robust, even in the absence of sophisticated actuarial studies. However, most schemes could be improved with some modest attention to the technical aspects of their design.

- Many MFIs have introduced features in their microinsurance products that artfully address problems of moral hazard and adverse selection, even if these technical terms are not employed or understood. This suggests that MFIs possess a great deal of insight into the economic behaviour of their members or clients which can be drawn on in the further development of the microinsurance sector.

- There can sometimes be a tension between technical soundness and client preference, e.g. with respect to the level of the premium. If not resolved satisfactorily, the scheme may be unable to meet its objectives on a sustainable basis.

- MFIs can provide financial services, which provide insurance-like benefits, even if they are not technically insurances in the sense of interpersonal risk pooling. An example of this is the special loan facility offered by URCBAM.

- There is a huge variation in start-up and administrative costs associated with different models within the same genre of insurance. However, it is often possible for an MFI to add microinsurance products with only a minor increase in administrative work.

- Microinsurance can be profitable for MFIs, even if earning profits is not the MFIs' main reason for introducing microinsurance. Credit-life insurance, furthermore, can positively contribute to the stability of the MFI, while health and livestock insurance provide services that enhance members' quality of life and entrepreneurial potential.

- It is just as possible to charge too much as too little by way of insurance premia, and both can have detrimental effects to the sustainability of a microinsurance scheme.

- There is a huge need for sensitization and education of prospective microinsurance claimants. The MFI sector as a whole is well placed to undertake this task, not least because MFIs are known and trusted by SMEs and are relatively well represented throughout the country.

- Similarly, MFIs are the most strategically placed institutions to either provide microinsurance directly, or offer a link between clients and commercial insurance companies.

- There are innumerable options that exist according to which MFIs can link up with commercial insurers. Some of this variation is evident in current practice, but there remains scope for exploring new possibilities, and thereby also expand the repertoire of types of microinsurance available.

- MFIs and commercial insurers in some cases compete directly, but in actuality have very distinct strengths, which would appear to complement one another. As an example, MFIs have good will, presence, and ability to interact with large numbers of members bearing relatively low transactions costs; commercial insurers for their part possess the actuarial expertise that MFIs lack.

- The interactions at the MFI level between the practice of microinsurance on the one and, and of other financial services on the other hand, is complex and as of now is still not well understood. Even so, there is perhaps a need to selectively de-link current microinsurance products from other financial services, not least to enlarge the number of clients who might possibly make use of microinsurance.

6.2. Prospects for the further development of MFI-based microinsurance in Burkina Faso

There is enormous scope for increasing the practise of MFI-based microinsurance in Burkina Faso, not just in terms of overall volume of business, but also in the variety of risks covered. First, MFIs demonstrate a commitment to meeting the needs of their members and a willingness to experiment with new products. This is evidenced by the fact that a number of MFIs have branched into health insurance, and that an even larger number have independently introduced credit-life insurance and relied upon their own innovation for doing so. Second, it is likely that the growing interest of commercial insurers in the SME sector will actually be a boon for MFIs.

What shape these future developments may take depends on a number of factors, most of all on the technical feasibility of different possible products, the suitability of MFIs in providing these products, and the (potential) demand for these products.

6.2.1. Possible new microinsurance products

There are three areas in which feasible microinsurance products could likely be introduced and that meet an important need of either SMEs or low-income households generally.

First, with very little difficulty, MFIs could introduce limited life cover for borrowers. The aim would be to provide the family of the deceased with a lump sum of money, however modest, to cushion the financial blow of having lost a breadwinner or merely to assist with the cost of funeral arrangements. Beyond the valuable service this would provide, it would also have the effect of sensitising people generally to the value of insurance. The idea would be to extend the existing credit-life schemes and allow additional payout – possibly at additional cost – upon the death of a borrower. Apart from the challenge of choosing the right level of benefit to fit the right premium, there is little that would be new in terms of administrative requirements or systems for those MFIs already engaged with credit-life insurance. A limitless number of variations could be introduced. For example, upon completing loan repayment, an MFI member who does not wish to take out another loan could elect to renew the life cover for a specific period of time. The argument for starting with borrowers is simply that the existing credit-life schemes lend themselves to such an adaptation. However, presumably it would be important to extend the option of life cover to the much larger number of savers. This could be done in a number of ways, for example a saver could be given the option of agreeing to an annual deduction from her savings balance in exchange for a few years' worth of life cover. As with credit-life insurance itself, there would be scope for running such a scheme in conjunction with one of the commercial insurance companies, which although not strictly necessary, could be a great asset in performing the underwriting. Initially, such a scheme would likely have more appeal in urban than in rural areas, because urban households are thoroughly reliant upon the cash economy and sometimes also have less extensive support networks upon which they can rely in times of need.

The second microinsurance product we touch upon is livestock cover. With reference to the discussion in section 3 of ADR-TOM's scheme, we argue that there is both a great need for such insurance, and that it has been demonstrated that such insurance can work. Indeed, apart from health insurance, it is difficult to imagine any sort of insurance product with as great a potential impact for Burkina Faso's rural sector. The original ADR-TOM system could and should be modified in a number of ways, while retaining key features such as those that dealt with moral hazard and adverse selection. Technically, necessary modifications would include changing the manner in which risk is pooled and limiting the extent of cover for older animals, while context-specific adaptations could include de-linking insurance cover from credit for animal purchase, and possibly extending to livestock other than plough oxen. One of the main problems with reintroducing livestock insurance is that there may be few MFIs that would be well positioned to undertake it. Institutions such as ADRK, which combine expertise in farming and rural development with experience in running an MFI, would be ideal but are by no means common. It would probably be too much of a stretch for, say, non-sectoral MFIs such as the Caisses Populaires, even though they have a presence in many rural towns.

Third, it is conceivable that a microinsurance product could be created to protect against the loss or damage of productive assets such as those used by mechanics, tailors, etc. As with the original ADR-TOM livestock insurance scheme, the logical place to start with such a product is to only offer it on items that are purchased by means of a loan from that MFI. The advantage of this approach is that all or most of the information that would normally be required for the insurance contract is collected for the loan application anyway, and, apart from verifying the degree of damage or the circumstances of the asset's disappearance, the additional administrative costs of the scheme would be minimal. Another advantage is that people would not have any incentive to over-insure assets with the expectation of lodging a claim. A variation of this approach is that in the event of, say, the theft of the asset, the insurance pays off the balance of the loan or even replaces the asset. Premia can be made variable according to risk reduction strategies undertaken by the applicant, and deductibles can be required in order to put a further check on moral hazard.

6.2.2. Non-insurable risks

The choice of the three risks discussed above as good candidates for new microinsurance products, is also informed by types of risks that are probably not amenable to management through microinsurance. Drought, market risk, the risk of non-paying clients and equipment failure, are risks, which for a variety of reasons, would be very difficult to address through microinsurance. Drought insurance has been tried all over the world, almost always sponsored by and at great cost to the state. Because the problems of moral hazard and claim quantification are so insurmountable, such schemes (which usually have to take place on a national scale anyway to deal with locally covariant risks) deteriorate into subsidy schemes. A few innovative ideas for more appropriate types of drought insurance have been discussed within academic circles, but none has been actually implemented, and in any event would be well beyond the means of a local MFI.

As for market risk, insurance as such is non-existent, though in some situations financial techniques can counter the effects of adverse changes in market conditions, e.g. by hedging. However, these techniques would not apply to most formal sector businesses, never mind SMEs in the informal sector. As with drought, the best insurance against market risk is self-insurance and diversification.

The risk of non-paying clients could theoretically be insured through pecuniary loss insurance, which falls within the category of financial loss insurance. Pecuniary loss insurance protects the insured party in case of the failure of a third party to honour an agreement, as in the repaying of a loan. A typical case is mortgage indemnity guarantee insurance, which indemnifies a bank against default on homeowners' mortgages. The premise of pecuniary loss insurance is that the third party cannot pay, as opposed to a situation where the third party simply refuses to pay, in which case one would rather seek legal recourse. At any rate, it is doubtful that such insurance could function within the informal economy, particularly the urban informal economy, where implicit contracts are difficult to enforce. If such contracts were enforceable, the risk in question would largely disappear.

Finally, equipment failure is impossible to insure except through customized insurance contracts for well-established companies. The transactions costs of developing such insurance contracts are typically very high. The usual way of dealing with the risk of failure of smaller-scale capital equipment, on the other hand, is through service contracts. These are commonly with the original supplier of the piece of equipment, though this is not always the case. At any rate, providing service contracts would clearly not be a business to which MFIs are suited.

6.3. Amending the regulatory framework to accommodate microinsurance

Presently the practice of microinsurance in Burkina Faso is not sanctioned either by the legislation applying to MFIs, nor that applying to the insurance industry. The unofficial policy of leniency recognizes that microinsurance meets a need that commercial insurance cannot. However, this enlightened attitude of tolerance cannot carry on indefinitely, and sooner or later microinsurance will have to be brought firmly into the legislative ambit. The primary purpose of insurance legislation is to protect consumers and the economy at large, and the need to protect consumers would apply in equal measure to policyholders of microinsurance.

There are two broad approaches that could be pursued. One approach would be to amend the legislation providing for the MFI sector, such that authorized MFIs can apply for permission to also practice insurance, but are exempt from the requirements stipulated in the insurance legislation. The amendments to the MFI-oriented legislation would presumably set out standards that would be appropriate to the practice of microinsurance (e.g. minimum solvency ratios), and could attempt to define microinsurance in terms of, say, a maximum level of benefits per policy. (This is how, for example, legislation in South Africa distinguishes friendly societies from insurers proper.)

The other approach would be rather to try to amend the insurance legislation so as to accommodate the practice of MFI-based microinsurance. Since obviously less stringent standards would have to be applied to microinsurers than to normal commercial insurers, the legislation would also have to specify by what means the two are distinguished. One peculiar distinction that would likely be drawn is that, unlike normal commercial insurers, microinsurers would be permitted to practice both life and non-life insurance, lest one take an already small institution and force it to divide into even smaller parts.

Whether one prioritizes the amendment of the MFI legislation over the insurance legislation, or the other way around, each approach accomplishes more or less the same end. Perhaps the real issue is which set of authorities one ultimately wants to assume responsibility for the supervision of microinsurers. It could be argued that government officials charged with supervision of the insurance industry have more expertise regarding insurance, and thus would be better placed to supervise microinsurance as well. The contrary position is that officials supervising MFIs have a better understanding of the organization of the MFI sector. Moreover, authorized MFIs are already obliged to submit annual reports to their supervisors; it is easy to imagine that this reporting requirement could be expanded to account for microinsurance activities (to some extent, they already do), which would be easier for MFIs than having to submit one report to MFI officials and another report to insurance officials.

One particular area in which new regulation will be especially beneficial to microinsurance is in laying down parameters governing the interaction of MFIs and commercial insurance companies. This is desirable in two senses. First, such regulation could be enabling, by spelling out what are permissible arrangements between MFIs and commercial insurance. Second, regulation could help protect MFIs that might for instance have negotiated a cedant-reinsurer type arrangement with a commercial insurer.

Either way, none of these changes can be accomplished in Burkina Faso unilaterally. Both the MFI legislation and that pertaining to the insurance sector are based upon regional codes. This means that reform of the regulatory environment for microinsurance may happen rather sluggishly, although once it is done, it applies to all participating countries.

6.4. Conclusion

There is every reason to believe that microinsurance will expand and diversify in Burkina Faso, and play an ever more valuable role in the lives of low-income households and SMEs. One of the key constraints to the growth of microinsurance practice is the dearth of available information for MFIs to draw upon. To date, MFIs have done a remarkable job of innovating their own microinsurance products, but would no doubt benefit from more information resources. One such resource will be the best practice manual that is the ultimate goal of the Social Finance Programme's initiative on microinsurance, and of which this study is but one piece of background research. This initiative will allow MFIs access to the microinsurance ingenuity of their counterparts in other parts of the globe.

In addition to facilitating the sharing of best practice experience, donor agencies may have other roles to play in furthering the development of microinsurance. Donor agencies are already providing valuable assistance to Burkinabé MFIs in the area of health mutuals. Two other activities might include support for the resurrection of livestock insurance, either on its original site in Toma, or elsewhere in the country where there may be more local capacity to launch and run such a scheme. The premise of such a project would be that it could serve as a pilot – a laboratory from which one can learn more about this important but scarce form of microinsurance. On a larger scale, there would be merit in rendering support either to BCEAO, CIMA, or both, for a regional stock-taking of microinsurance practice, and in particular to participate in the process of revising the relevant regulations at the regional level.

References

ADRK, 2000. Les mutuelles de santé comme alternatives à l'accès aux soins en milieu rural défavorisé: *Etude de faisabilité sur la zone d'intervention* de l'ADRK, Coopération ADRK-MSA.

Aliber, M. 2001. "South African case-study on micro-insurance", unpublished research report for the Social Finance Programme, ILO.

Atim, C. 2000. *Contribution des mutuelles de santé au financement, à la fourniture et à l'accès aux soins de santé: Synthèse de travaux de recherche menés dans Neuf Pays d'Afrique de l'Ouest et du centre*. USAID, ILO, PHR, ANMC, WSM.

Banque Centrale des Etats de l'Afrique de l'Ouest, and Bureau International du Travail, 1999, *Banque de Données sur les Systèmes Financiers Décentralisés, 1998*, Dakar *Organization Internationale du Travail*. (PASMEC), ILO.

Blench, R. 1999. "Animal traction in Africa: Analysing its environmental impact", in P. Starkey and P. Kaumbutho, (eds.): *Meeting the challenges of animal traction*, (London), Intermediate Technology Publications.

Consumer Federation of America 1996. *Credit life insurance: Still a rip-off*.

Direction Nationale de la Statistique.

Fofack, H.; Monga, C.; and Tuluy, H. 2001. *Household welfare and poverty dynamics in Burkina Faso: Empirical evidence from household surveys*, World Bank, Policy Research Working Paper 2590, Washington, DC.

Forefield, Inc. 2000. *Life insurance: Planning considerations*, web site at http://www.insurance.com

Hanover Life Re. 1997. *An introduction to credit life insurance*, Johannesburg.

La Voie. 1998. "Les assureurs sensiblisent", 11 Mar.

United Nations Development Programme 2000. *Human Development Report*, United Nations, New York.

World Bank 2000. *World Development Report 1999-2000*, Washington, DC.

[SFCL livestock insurance in Nepal]

List of MFIs interviewed

ADRK - Association pour le Développement de la Région de Kaya
B.P. 54 Kaya
Province du Sanmatenga
Tel. 226-45-32-29

ADR-TOM - Association pour le Développement de la Région de Toma
B.P. 164 Toma
Province du Nayala
Tel. 53-60-41

Caisse Populaire de Cissin
s/c Fédération des Caisses Populaires du Burkina
01 B.P. 5382 Ouagadogou 01
Tel. 226-30-48-41

Coopec-Galore
09 B.P. 227 Ouagadougou 09

MUFEDE - Mutualité - Femmes et Développement du Burkina
01 B.P. 3291 Ouagadougou 01
Tel. 226-31-38-27

PRODIA - Promotion du Développement Industriel, Artisanal et Agricole
01 B.P. 2344 Ouagadougou 01
Tel. 226-34-31-11

URCBAM - Union Régionale des Cooperatives d'Epargne et de Crédit du Bam
B.P. 150 Kongoussi
Province du Bam
Tel. 226-45-74-38