

The
HIV/AIDS
Crisis



How Does HIV/AIDS Affect African Businesses?



United States Agency for International Development

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For African businesses to attract new investors, they must demonstrate a competitive advantage. In much of Africa, businesses already have a competitive advantage because labor is abundant, affordable, and productive. Countries inevitably compete against one another to attract investors. In turn, investors seek to locate their businesses in a country that has the most productive, lowest-cost workforce.

There are several mechanisms by which HIV/AIDS affects the international competitiveness of African businesses:

1. **Labor Supply.** AIDS deaths lead directly to a reduction in the number of available workers. These deaths occur predominantly among workers in their most productive years. As younger, less experienced workers replace experienced workers, worker productivity is reduced, which in turn results in a decline in international competitiveness.
2. **Profitability.** AIDS reduces the profitability of African businesses by both increasing the cost of production and decreasing the productivity of African workers. The loss of profitability clearly will reduce Africa's competitive advantage.
3. **Other Impacts.** AIDS can also affect African businesses in many ways that are difficult to quantify but that nonetheless can significantly affect competitiveness. For example, AIDS affects worker morale, labor relations, demand for output, and so forth.

Each of these impacts is discussed in greater detail on the following pages.

How Does HIV/AIDS Affect the Labor Supply?

As already indicated, the objectives of promoting trade and increasing investment in Africa can be reached only if African businesses have an adequate supply of trained workers.

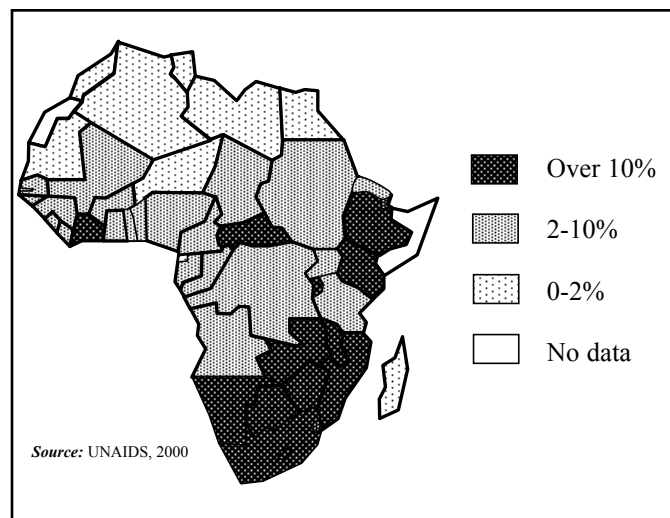


Figure 1. Percent of Adults Infected with HIV in Africa, 1999

Figure 1 shows the percent of adults in Africa infected with HIV. It is currently estimated that at least one in 12 workers in sub-Saharan Africa is infected; for some African businesses, the ratio is as high as one in three. Most infected workers will become ill and die within seven to 10 years of becoming infected. The impact from losing so many workers will vary greatly as will the response of companies with several infected workers.

Most African businesses that have more than 10 employees have already seen at least one employee die of HIV/AIDS or currently employ infected workers. In some countries, the number of HIV infected employees has been devastating. For example,

- In a sugar mill in South Africa, 26 percent of all tested workers were infected with HIV. Infected workers incurred, on average, 55 additional days of sick leave during the last two years of their life.¹
- In Botswana, it has been estimated that 35 to 40 percent of all teachers are infected with HIV.²
- One study in Kenya on a sugar estate found that 25 percent of the estate's workforce was infected with HIV.³
- Even in countries such as Ghana, which has a more moderate prevalence of HIV, businesses report significant numbers of both AIDS deaths and known HIV infections.⁴

If businesses are to succeed financially, they require a steady supply of adequately skilled labor. For companies requiring skilled workers, it is likely that HIV/AIDS will present a particularly significant problem. Professionals are in short supply, and the costs required to train a new worker are often significant. One study demonstrated that firms took, on average, eight times longer to replace a deceased professional than a skilled worker.⁵

Figure 2 illustrates the average age and sex of persons infected with HIV in Rwanda. This shows that the bulk of infections are occurring among young people who are just entering the workforce. This should be particularly worrisome to African businesses, as it demonstrates that the future supply of laborers and managers are likely to be the ones most affected by HIV/AIDS. At the same time, this figure shows the critical importance of spending money on HIV/AIDS prevention among young people. In order to safeguard the future labor supply, it is necessary to stress prevention programs for youth today.

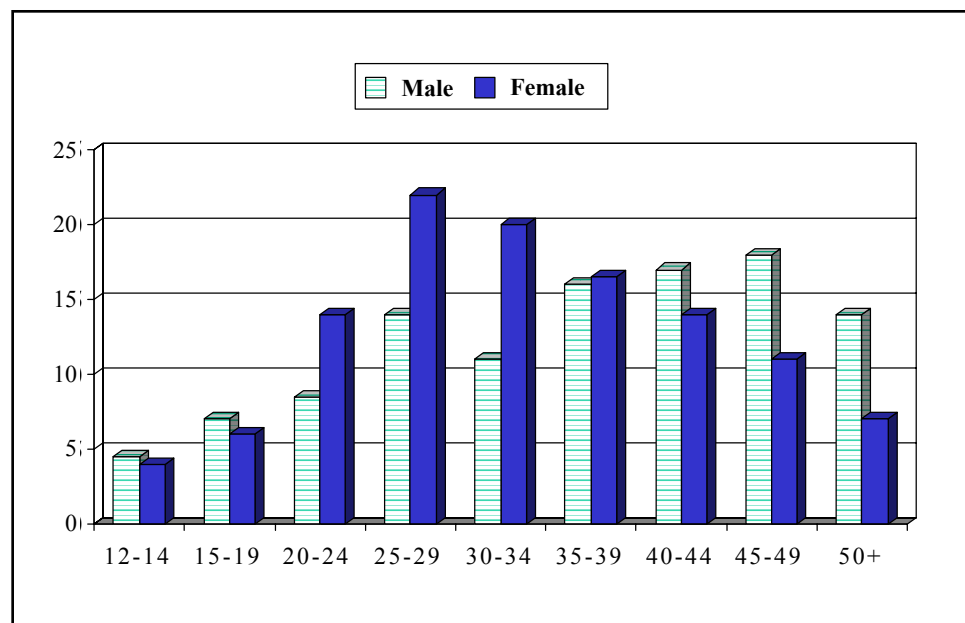


Figure 2. HIV Prevalence by Age and Sex (Rwanda, 1997)

How Does HIV/AIDS Affect Profitability?

HIV/AIDS can affect a company's profitability by either increasing expenditures or decreasing revenues. During the early stages of infection, managers may observe an unexplained increase in the number of sick days taken. The employee, his or her spouse, and children may incur higher health care costs, many of which are reimbursed by the employer. The productivity of the worker may decline, particularly when opportunistic infections such as tuberculosis (TB) become more common.

As the epidemic progresses, managers may observe within their workforce an increase of diseases, such as TB, sexually transmitted infections (STIs), skin rashes, diarrhea, and possibly even malaria. (Some evidence suggests that HIV-infected individuals are much more susceptible to serious bouts of malaria as a consequence of their suppressed immune system.) There is likely to be a corresponding increase in health care costs and sick days. Employees who are identified as being infected may be retained, moved to a less demanding position in the company, or fired outright (with or without compensation) depending on corporate policy.

*"NamWater, the largest water purification company in Namibia, announced recently that HIV/AIDS is 'crippling' its operations. They report high staff turnover due to AIDS-related deaths, increasing absenteeism, and a general loss of productive hours. The firm plans on examining the impact of the epidemic through a survey, and then designing further policies to mitigate the impact. The company already distributes condoms to their workforce and has trained 60 peer educators."*⁶

A loss in revenues attributable to HIV/AIDS can occur when infected workers take leave due to illness, the need to care for other infected family members, or the need to attend the funerals of coworkers or loved ones -- in north central Namibia, for example, it has been estimated that extension staff spend at least 10 percent of their time attending funerals.⁷ Productivity can also decline when workers in poor health come to work but are unable to produce at their normal levels.

The extent to which people living with HIV/AIDS will continue to be employed depends on the type of work performed and the existing policies of the relevant company. Presumably, employees involved in heavy manual labor will be less likely than desk workers to maintain their jobs when they become infected. Certain companies are required (by government mandate or union contract) to continue offering benefits. However, other companies are able to shift the burden to the government or the families of the employee living with HIV/AIDS.

There are various ways in which expenditures are likely to increase when African businesses are affected by HIV/AIDS. An increase in health care costs is likely to be one sign that a company is experiencing the effects of the epidemic. Companies with private health insurance policies may find that their premiums are increasing. Other companies with in-house health care services may find an increased need for services that may not immediately be identified as HIV-related.

Factors Leading to Increased Expenditures	Factors Leading to Decreased Revenue
Health care costs Burial fees Training and recruitment	Absenteeism due to illness Time off to attend funerals Time spent on training Labor turnover Reduced worker productivity

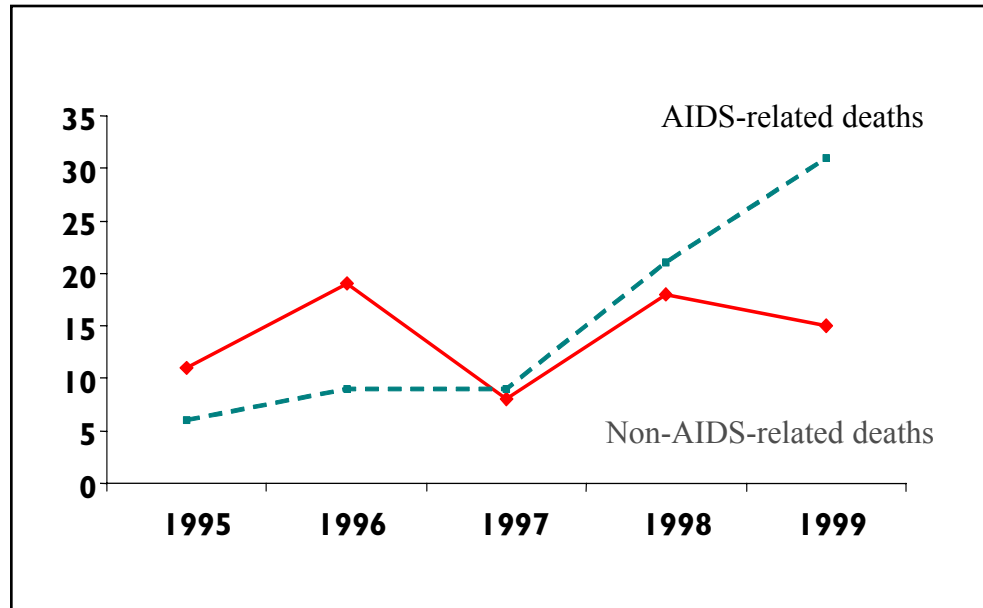


Figure 3. Death Rate on a Sugar Estate in Swaziland

Figure 3 indicates how quickly the number of AIDS-related deaths can increase. As more workers die of AIDS, it is likely that the private sector in Africa will observe increased costs in terms of death benefits. When a worker dies, many larger African companies offer a death benefit to the surviving family. In some cases, these death benefits equate to as much as three years of salary plus funeral-related expenses. Some companies also pay workers a death benefit if their spouse or children die. With the advent of the HIV/AIDS epidemic, companies have tried to mitigate the impact of benefit costs in various ways. For example, some African companies have reduced the amount of their contribution to funerals. Other companies have required funerals to be conducted on weekends to minimize the disruption to work.

The cost of recruiting and training new workers may also be substantial. The cost of replacing unskilled workers may be small, particularly when the rate of unemployment in the community that houses the business is high. As a result, most unskilled workers can be replaced within a week with little or no cost of recruitment. However, many African countries have a shortage of experienced senior managers. In this case, positions may be left unfilled for months or even years, which represents a significant cost to the company. Some companies even have had to resort to hiring highly paid expatriates following the death of senior managers.

As with recruiting, the cost of training and of general human resource development depends on the education and skill level required for the position as well as on the capacity of the pool of available workers. Training of unskilled workers often occurs over a period of a few days and does not generally represent a high cost to the company. The costs involved in training a director of finance, marketing, accounting, or sales, however, can be significant, particularly as such training is typically performed overseas. One international company, for example, trains its African senior managers in Europe over a period of four weeks. That same company indicated that when a managing director is lost due to AIDS or other reasons, the company incurs costs of \$100,000 to recruit and train a replacement.

**What Other
Impacts Does
HIV/AIDS
Produce?**

In the end, HIV/AIDS is likely to have a variable impact on expenditures depending on the

- prevalence of HIV;
- cost of training and providing benefits;
- availability of prevention activities; and
- extent to which the company can shift the economic burden of the disease from itself to workers, their families, and the public sector.

It should be noted that the data on the extent of the impact of HIV/AIDS on profitability remain controversial. Studies completed in South Africa⁸ and Kenya⁹ suggest that the economic impact of HIV/AIDS on profitability is likely to be substantial. Studies in Zambia,¹⁰ Malawi,¹¹ and Botswana¹² however, indicate that the impact of HIV/AIDS on profitability was not substantial at the time those studies were carried out. Nonetheless, the loss of profits due to HIV/AIDS may be substantial for some African business. Therefore, it is critical that businesses become aware of the HIV/AIDS problem and take immediate steps to mitigate its impact. Such steps should include workplace peer education programs, condom distribution, voluntary counseling and testing, STI treatment, and treatment for HIV-related opportunistic infections.

The indirect impacts associated with HIV/AIDS are much more difficult to quantify but can nonetheless be an important factor in influencing investment decisions. The indirect impact incurred by African businesses refers to those outcomes that cannot be directly attributable to an increase in revenues or a loss in expenditures over the short term, but that still can create a significant burden for a company. For example, HIV/AIDS can result in a substantial decline in morale among workers. As employees watch many of their co-workers die of AIDS, they may adopt a generally fatalistic attitude toward life and work.

One indirect effect of absenteeism is that it results in extra work for other healthy employees who have to stand in for sick colleagues. In some companies, healthy employees were increasingly working extra hours to compensate for the time lost by their absent (sick) colleagues. In so doing, not only did companies pay more in terms of overtime, but interviewed workers also pointed out that they were overworked and exhausted. According to the engineering manager of one of the companies, working longer hours produced stress among employees and was responsible for a decline in both the quantity and quality of the final product (sugar). The spread of the epidemic can also contribute to worsening labor relations. If employees do not feel that their employers are providing adequate prevention or care services, the relationship may degenerate. In some cases, workers demand the dismissal of their colleagues when learning of their colleagues' illness.

"...Knowledge or even suspicion that one of their colleagues has HIV/AIDS is likely to trigger certain negative attitudes and behavioural responses towards that individual and how they perform their own tasks."¹³

Managers may not always be aware of the ways in which HIV/AIDS is affecting their business. One way to address the indirect effects of HIV/AIDS is to establish a workplace policy that explains how the needs of infected workers should be addressed. Such a policy should promote a positive relationship among infected workers, their employer, and their colleagues.

**How Does
HIV/AIDS Affect
African
Economies?**

HIV/AIDS can also result in a significant decline in the demand for some products. HIV/AIDS is known to be a disease that tends to impoverish families, particularly because infected individuals are often the main income earners in the household. As a result, families end up earning less but spending more on health care, leaving few resources available to purchase other goods. Thus, most businesses are likely to observe at least some decline in demand for their products, especially the "luxury" goods that consumers can forego during difficult economic times. An article by Alan Whiteside, for example, noted that a South African furniture manufacturer (JD Group) projected an 18 percent reduction in its customer base as a result of HIV/AIDS. The study went on to conclude that consumers would incur a significant decrease in demand for furniture due to HIV/AIDS and its corresponding impact on household consumption.¹⁴

In addition to the impact of HIV/AIDS on particular businesses, HIV/AIDS can influence national economies. Such an impact can be particularly devastating to the objective of increasing investment, for investors seldom invest in countries with declining economies.

<p style="text-align: center;"><i>Impact on Investment</i></p> <ul style="list-style-type: none">• Uncertainty over the impact of HIV/AIDS causes investor reluctance• Decrease in the pool of national entrepreneurs• General economic picture <p style="text-align: center;"><i>Impact on Trade</i></p> <ul style="list-style-type: none">• Reduced production due to increased costs to firms• Decrease in workers with experience in export markets• Transport of export products to marketplace
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Various methodological issues and features of developing country economies make detection of macroeconomic impacts difficult. Initial studies regarding the potential impact of HIV/AIDS on macroeconomic growth have generally not been conclusive, with some studies in Botswana¹⁵ and Tanzania¹⁶ showing that the change in per capita income would be minor.

However, as the epidemic has progressed, economists have tended again to raise questions about the potential macroeconomic impacts of HIV/AIDS. A Kenyan analysis indicated that HIV/AIDS would produce a significant impact, with predictions that HIV/AIDS would leave the Kenyan economy one-sixth smaller than it would have been in the absence of HIV/AIDS.¹⁷ A study of African countries in 2000 suggests that HIV/AIDS has reduced the growth of per capita income by 0.7 percent per year; in malarial countries, the rate of growth was further lowered by 0.3 percent. For countries with HIV/AIDS prevalence levels above 20 percent, GDP is estimated to be 2.6 percentage points less per year. The most recent economic analyses have therefore indicated that the epidemic may be affecting growth to a much greater extent than earlier predicted.¹⁸ A recent study found that the impact of the AIDS epidemic in South Africa could be "substantial." By the year 2010, the level of GDP could be lower by 17 percent due to HIV/AIDS while the level of per capita GDP could be lower by 7 percent. About half of the decline is attributable to the increase in current government spending to pay for health care associated with the epidemic; another third of the decline is attributable to lower productivity.¹⁹

It appears that many African economies are already being affected by HIV/AIDS. Decision makers must be prepared to pursue policies at the national level that can mitigate social and economic impacts. This may include promoting policies that increase savings and encourage investment in specific types of human capital that might be in short supply (e.g., teachers, doctors, and so forth).

Conclusion

African nations have a potential competitive advantage over other regions of the world. Businesses and governments must protect the vast majority of workers who are uninfected, offer appropriate support and services to those who are infected, and ensure that the impact of HIV/AIDS is mitigated.

Since HIV/AIDS tends to affect people in their prime working ages, the spread of the disease can prevent some nations from meeting their labor needs, particularly for businesses that require workers with significant training or work experience. The loss to HIV/AIDS of even one critical employee can cause a business to lose its competitiveness.

The spread of HIV/AIDS has resulted in the loss of profitability among African companies. This loss is attributable to increased expenditures on benefits such as health care, sick leave, and death benefits as well as to the additional cost of retraining new employees. In turn, revenues have been shown to decline when many workers become infected and their productivity declines. African businesses have also been affected more indirectly as a result of HIV/AIDS. For example, as workers become ill, companies have experienced a decline in morale, labor relations, and demand for the company's products. Lost profitability among African businesses may already be thwarting efforts to encourage foreign businesses to invest new money in the African continent.

Strong macroeconomic prospects are particularly important to investors who want assurance that they are investing in a country with a stable currency and a growing demand for their products. The most recent economic studies indicate that HIV/AIDS can negatively affect a nation's overall economic growth, which in turn is likely to hinder the success of trade and investment initiatives by limiting the number of businesses that are willing to invest in Africa.

To conclude, it is imperative to recognize that in most African countries, more than 90 percent of workers are not infected with HIV. In other words, despite the potentially dire consequences of HIV/AIDS, in most countries there is still time to prevent and to mitigate the impact of the epidemic. Also, we now know what works in terms of HIV/AIDS prevention. In countries such as Uganda and Senegal, prevention programs have succeeded in significantly reducing or limiting the spread of HIV infection. Finally, there are now unprecedented levels of commitment globally to addressing the issue of HIV/AIDS.

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