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# STRENGTHENING THE ROLE OF AIDS-AFFECTED MSEs IN PRODUCTIVE MARKETS

BDS ON THE MARGINS HIV/AIDS PAPER

microREPORT #27

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**Accelerated Microenterprise Advancement Project (AMAP)** is a 4-year contracting facility that USAID/Washington and Missions can use to acquire technical services to design, implement, or evaluate microenterprise development, which is an important tool for economic growth and poverty alleviation.

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## **ABBREVIATIONS**

AIDS	acquired immunodeficiency syndrome
ART	antiretroviral therapy
BDS	Business Development Services
CETZAM	Christian Enterprise Trust of Zambia
CLUSA	Cooperative League of the United States of America
DAI	Development Alternatives, Inc.
ECOSOC	Economic and Social Council
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
GDP	gross domestic product
HIV	human immunodeficiency virus
IEC	information, education, communication
IESC	International Executive Service Corps
ILO	International Labour Organization
LEAD	Linkages for the Economic Advancement of the Disadvantaged (USAID project)
MFI	microfinance institution
MSE	micro and small enterprise
NGO	nongovernmental organization
RGB	rural group business
SEEP	Small Enterprise Education and Promotion
STI	sexually transmitted infection
TEP	Tourism Enterprise Program
USAID	U.S. Agency for International Development
VCT	voluntary counseling and testing



## EXECUTIVE SUMMARY

With 39.4 million people HIV-positive or living with AIDS around the world, it is not surprising that AIDS is having an economic impact on households, businesses, and even national economies. Micro and small enterprises (MSEs) are particularly at risk because they comprise more than 90 percent of all enterprises in the world and already face constraints to market access. The additional burden of HIV/AIDS on MSEs could be sufficient to push many of these firms out of the markets in which they are currently active.

This paper addresses the important issue of sustaining the role of MSEs in productive economic activity when MSEs are directly affected by HIV/AIDS. It identifies the constraints that are specific to HIV/AIDS-affected MSEs and presents promising approaches to address these constraints and mitigate the impact of HIV/AIDS on MSEs.

### CONTEXT

The business environment in which MSEs operate is key to their success. One of the main goals of microenterprise development efforts is to link MSEs to lucrative markets, through programs designed to enhance skills, assets, information, relationships, or infrastructure. HIV/AIDS reduces all of these resources. This discussion begins by gaining an understanding of MSEs within the context of the business relationships that characterize the value chain in which they operate.

### CONSTRAINTS TO VALUE CHAIN PARTICIPATION BY AIDS-AFFECTED MSEs

Even before the appearance of HIV/AIDS, MSE participation in value chains was constrained by numerous factors—limited resources with which to serve the market, high transaction costs for both MSEs and their commercial partners, significant risks within value chain relationships, and lack of market information, understanding, and access. HIV/AIDS exacerbates these constraints in three ways: (1) by directly affecting the MSE in the value chain; (2) by affecting related players in the value chain; and (3) by affecting the interaction of players in the value chain—and indeed in the larger subsector.

The paper identifies four major constraints specific to HIV/AIDS-affected MSEs participating in value chains:

*Resource Constraints*—MSEs generally have limited resources in terms of workforce, financial resources for investment, business assets, prior experience, and special skills, and they have limited contact with those who can support business development. HIV/AIDS results in further declines in MSE resources, often in unexpected and therefore hard-to-resolve ways.

*Transaction Costs*—Nonfinancial costs associated with doing business—including the costs of learning about opportunities, negotiating terms, and enforcing contracts—are high for MSEs and their business partners. MSEs coping with AIDS face additional hurdles in producing the quantity or quality demanded by buyers, which further increases transaction costs.

*Risk for MSEs and Large Firms*—Risk is inherent in doing business, and HIV/AIDS reintroduces a significant level of uncertainty and change into already delicate risk equations.

*Lack of Market Orientation*—Understanding and assessing what the often-distant final consumer is buying is key to an MSE's ability to participate in a value chain. In an AIDS-affected MSE, key employees may have less contact with business associates because of illness or caregiving. In addition, MSEs often have increased numbers of employees from vulnerable groups—women, children, and the elderly—who have more difficulty accessing market information.

## **APPROACHES TO MITIGATING THE IMPACT OF HIV/AIDS ON MSEs**

The paper links these constraints with a set of six promising approaches to mitigating the impact of HIV/AIDS:

*Asset Protection via Financial Services*—Protecting assets during an AIDS crisis is key to ensuring the continuation of the MSE’s participation in commercial activities. Microfinance, both formal and informal and both savings and credit, provides MSEs with access to financial resources on an emergency basis.

*Asset Protection via Legal Services*—After the death of a household member, assets used in business are often lost from redistribution of these assets to extended family members, or, as it is often called, “asset-grabbing.” Legal rights programs have been established with the support of community leaders to protect land and other assets for surviving spouses, by linking households with legal services.

*Workplace Policies and Programs*—The introduction of workplace policies and programs can improve both labor planning and employee health.

*Labor-Saving Technologies and Production Inputs*—HIV/AIDS-affected MSEs often face labor shortages due to illness, mortality, and the diversion of labor to caregiving activities. Labor-saving technology can mitigate the labor constraint and even increase production.

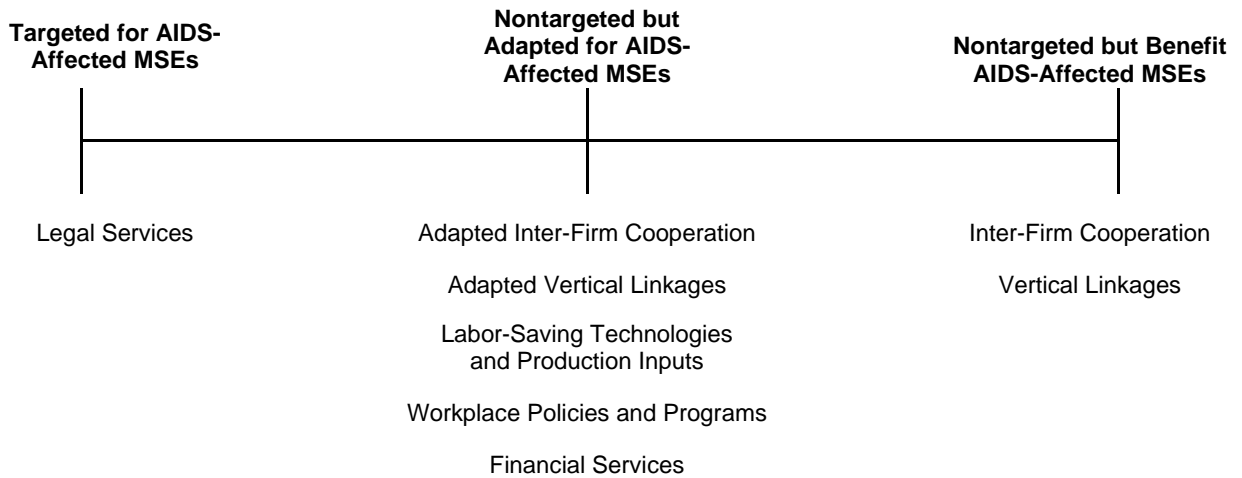
*Inter-Firm Cooperation*—Because MSEs are small individual units, doing business with them is often costly: it requires many individual transactions. This is particularly true for AIDS-affected MSEs, which have even more difficulty meeting quantity goals, getting market information, and coordinating with buyers. When MSEs come together, they reduce these costs.

*Vertical Linkages*—MSEs can enter into mutually beneficial relationships with their buyers, their input suppliers, or other actors in the value chain to gain access to services in exchange for supplier or customer loyalty. This is particularly important for MSEs already made vulnerable by HIV/AIDS.

## **TARGETING APPROACHES**

Some of these approaches are designed to explicitly reach HIV/AIDS-affected MSEs. Others are designed to support all MSEs but are adapted to ensure that they do not exclude HIV/AIDS-affected MSEs. Still others are only designed to provide support to all MSEs but they are particularly important for AIDS-affected MSEs because they address one of the key constraints that prevent AIDS-affected MSEs from participating in the market. In order to assist practitioners in determining the applicability of the approaches, they have been arranged along a continuum from most targeted to least targeted in the diagram below.

## TARGETING APPROACHES



In order to maximize impact on AIDS-affected MSEs, in AIDS-affected areas, it is recommended that all programs adopt the “nontargeted but adapted” strategies and consider high-priority targeted interventions as necessary. This suggests that programs should:

- Monitor and analyze the impact of AIDS within the target populations of the project; and
- Use an “AIDS lens” in program design and implementation to adapt nontargeted activities to ensure that AIDS-affected MSEs are not excluded from participation.





# 1. INTRODUCTION AND OBJECTIVES

HIV/AIDS is a health epidemic with far-reaching and devastating consequences. The impact of AIDS on economic growth in many countries around the world is already evident. As prevalence rates pass more than 20 percent in much of southern Africa, and the numbers of HIV-positive individuals reaches into the millions in other areas, the impacts of the disease are being felt well beyond the households that are most directly affected. HIV/AIDS typically has the greatest effect on the economically active segment of the population, reducing their income earning capacity. For example, in South Africa, it is expected that approximately 25 percent of the population aged 15 to 30 years will die in the next 15 years. The loss of prime-aged adults not only directly reduces the labor base but also reduces the level of human capital, which results in decreased productivity. This, on top of the increased costs from the epidemic, results in declining economic efficiency. Declining economic efficiency impacts households, businesses, economic sectors, and even national economies. Micro and small enterprises (MSEs) are the linchpin between households and the wider economy. They are central to household economies but also to suppliers and buyers from big businesses, particularly in developing countries. MSEs contribute to economic growth while simultaneously linking poor people to dynamic market opportunities. Unfortunately, MSEs also comprise the private sector segment that is most vulnerable to HIV/AIDS.

This paper addresses the important issue of sustaining the role of MSEs in productive economic activities and market relationships even when those MSEs are directly affected by HIV/AIDS. The paper identifies promising strategies to mitigate the impact of HIV/AIDS on MSEs in order to prevent AIDS-affected MSEs from falling out of productive markets. In order to address this problem, it is first necessary to understand how AIDS affects MSEs.

The paper begins by introducing the value chain concept, an important tool in understanding MSEs' opportunities and constraints even without the impact of HIV/AIDS. Chapter 3 is an overview of HIV/AIDS in the world today. Chapter 4 presents in brief what is known of the impacts of HIV/AIDS on the macroeconomy, sectors, businesses, and households. Chapter 5 then uses the value chain concept to explore the constraints specific to HIV/AIDS-affected MSEs. Finally, the paper examines a small but growing set of strategies now in use to reduce these constraints and keep MSEs actively connected to markets, even under the stress of HIV/AIDS.

The primary audience for this paper is development practitioners striving to enhance the economic livelihoods of the poor and working in geographic areas with a high prevalence of HIV/AIDS. The paper is also relevant for health professionals—it provides insight and suggestions for programming to mitigate the economic impact of AIDS and thus strengthen access to healthcare and nutritional status at the household level and beyond. The objective of the paper is to provide guidance on how to make current and new development programs more responsive to the realities of the AIDS environment, without losing focus on commercially sound, market-oriented microenterprise support.



## 2. BACKGROUND

### 2.1 WHY FOCUS ON AIDS-AFFECTED MSEs?

Micro and small enterprises play a major role in the economy of developing countries. They comprise more than 90 percent of all enterprises in the world and account for 50 to 60 percent of total employment and up to 35 percent of total economic activity.<sup>1</sup> Yet MSEs already face constrained market access and the additional burden of HIV/AIDS could push successful MSEs out of the markets in which they are currently operating. Working with these MSEs to strengthen their safety nets may enable them to sustain the financial and human resources needed to participate in productive markets. Those MSEs that do not have adequate safety nets in place before they are affected by the AIDS epidemic may be unable to cope with the economic strains created by HIV/AIDS and may be forced to exit the cash economy.

### 2.2 THE VALUE CHAIN CONTEXT

MSEs do not operate in a vacuum. One of the main goals of microenterprise development efforts is to link MSEs to lucrative markets, through programs designed to enhance skills, assets, information, relationships, or infrastructure. HIV/AIDS, which reduces all of these resources, makes microenterprise development efforts all the more necessary but also all the more difficult. Because the business environment in which MSEs operate is key to their success, it is useful to start this discussion by gaining an understanding of MSEs within the context of the value chain in which they operate.

The value chain is the sequence of functions through which a product or service is transformed from initial raw material into the product purchased by its end user. A value chain includes raw material sourcing, design, production, marketing, distribution, and sale and support to the final consumer. Each function is effectively a link in the chain, each adding value to the product or service. There may also be a range of activities taking place within each function. For instance, within the production function, businesses may procure inputs and supplies, process or manufacture the product, or package the finished product. These activities may be performed within a single firm or by a group of firms, often of very different sizes. The entire value chain often involves a complex web of players in these various functions—sometimes located in a single geographical area and sometimes spread out worldwide.

Two important factors within the value chain drive how the system organizes and functions and indicate leverage points for interventions:

- The governance of the value chain, which identifies who has the power and how it is being wielded to coordinate the activities within the value chain; and
- The distribution of profits within the value chain, which will determine opportunities for increasing the economic benefits to the smaller enterprises.

There are often several competing value chains, sometimes called “channels.” As a whole, these value chains comprise a subsector—or the set of channels that move a relatively homogeneous set of goods or services from raw materials to the final consumers. Within the subsector, each value chain has a set of actors organized to move the product to the final consumer; these actors are likely to be different from one value chain to the next. The distribution of profits also differs between value chains within

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<sup>1</sup> Kaplinsky and Readman, 2001: 2.

the subsector, often resulting in one value chain achieving dominance over the others, increasing its market share. Enterprises will seek to move into those value chains that offer them opportunities for greater profits, but doing so requires MSEs to “upgrade” to meet the new channel’s expectations of quality and quantity in order to capture some of the returns that the more lucrative market offers. The process of upgrading requires improved flow of information, skills, and know-how from people who have it to people who need it to build the capacity of MSEs and results in MSEs shifting from one value chain to another.

By definition, MSEs are small; therefore, they are relatively expensive to reach on a firm-by-firm basis. However, MSEs tend to concentrate in large numbers in some subsectors, and within a subsector in certain value chains. Placing the MSEs within the context of their subsector and value chain allows development specialists to take a systemic approach to assisting them.

### **2.3 HIV/AIDS INSIGHTS FROM THE VALUE CHAIN**

With respect to HIV/AIDS, the concepts of value chains and subsectors provide a framework for determining how HIV/AIDS-affected communities can remain engaged economically, or might be forced out of economic activity altogether. For example, as labor shortages increase because of the effects of HIV/AIDS, MSEs need to focus on less labor-intensive activities. With this knowledge, firms can make better choices, including shifting to different products or functions in the value chain that better match their changing capacity. However, if AIDS results in the loss of one of the skills required to fill the niche in the value chain in which it operates, and the firm is not prepared to take on a different role, it might find that it is squeezed out of its current value chain, as well as other higher-value channels. In this context, the value chain framework provides specific information about the services and support needed by AIDS-affected MSEs to ensure their sustainable participation in productive markets.

The green bean subsector in Kenya is used as an example in Chapter 5 to further illustrate the value chain concept; it highlights MSEs’ roles within the subsector and specific value chains.

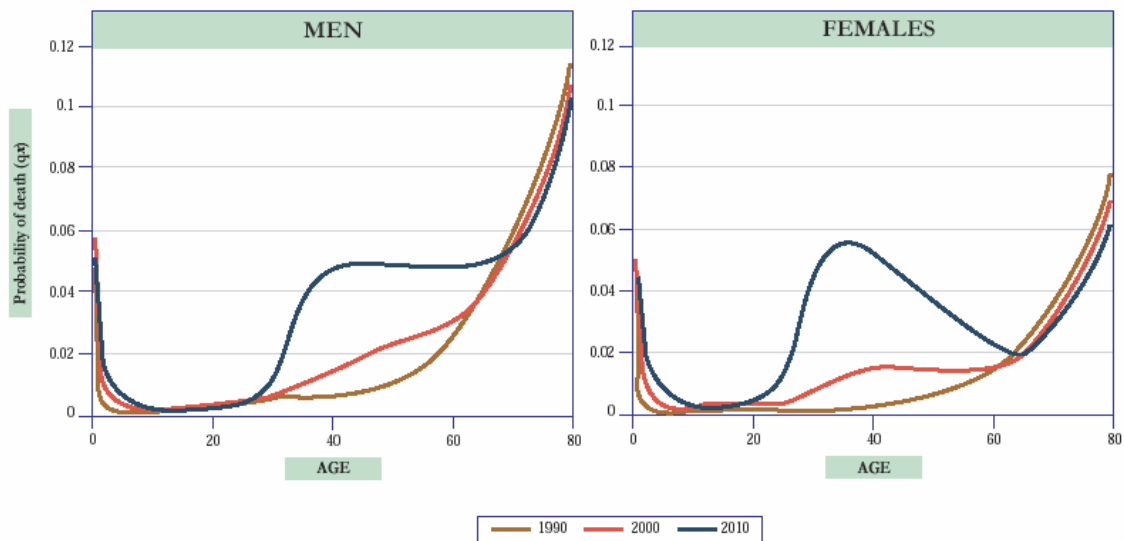
### 3. STATE OF THE HIV/AIDS EPIDEMIC

In order to find solutions to the problems created by the HIV/AIDS epidemic, it is first important to understand the scale of the problem and its regional diversity. It is estimated that there are currently 39.4 million people in the world who are HIV-positive or have AIDS.<sup>2</sup> This staggering figure goes up to 67.4 million when it includes the estimated 28 million who have already died from AIDS.<sup>3</sup> As dramatic as these figures are, they do not tell the whole story, because unlike most diseases, which target the old, the young, or the weak, AIDS disproportionately affects the economically active.<sup>4</sup> This compounds the impact of the epidemic. As Figure 1 demonstrates, the majority of those dying from AIDS are in their economic prime, between the ages of 25 and 45. In high-prevalence countries, the loss of the productive generation is forcing an increasing proportion of economic responsibilities on the very young and the very old.

Microenterprises are described as tiny informally organized business activities that use low technology and engage in labor-intensive activities. They own minimal assets and earn low levels of income (for both the enterprise and the operators). Usually 1–10 people are employed by the enterprise and these usually are family members. Many microenterprises involve one person, the owner-operator, or the operator may engage unpaid family members.

Source: USAID, 1995.

**FIGURE 1: MALE AND FEMALE MORTALITY RATES BY AGE IN AN HIV HIGH-PREVALENCE COUNTRY IN SOUTHERN AFRICA**



Source: Dorrington, et al., 2002.

AIDS is often considered an African problem, which is not surprising given that Sub-Saharan Africa houses two-thirds of the total HIV-positive population. One in five adults in the region is HIV-

<sup>2</sup> UNAIDS/WHO, 2004.

<sup>3</sup> Leather, 2004.

<sup>4</sup> ECIAfrica, 2003.

positive, and prevalence is still on the rise in most countries. However, since 2003, the world is awakening to the fact that the reach of the AIDS epidemic extends far beyond Africa's borders.

Eastern Europe is facing a growing epidemic; 1.3 million were infected by the end of 2003. This regional epidemic is primarily driven by injection drug use and other risky behavior of youth, as evidenced by the fact that 80 percent of the HIV-positive population is under the age of 30. In Asia, the epidemic is rapidly spreading to new countries with high populations that until recently had little or no HIV. While prevalence rates remain low, incidence, or numbers of newly infected, is skyrocketing (see box). India and China have estimated prevalence rates of 1.3 percent and 0.1 percent, respectively—low by African standards—but India already had 5.1 million people living with HIV in 2003,<sup>5</sup> and without effective action China may have 10 million infected by 2010. To date, the epidemic in Latin America and the Caribbean has been concentrated in high-risk groups, but HIV prevalence is already over 1 percent in 12 countries in the region and is increasing in the general population in several countries.<sup>6</sup>

AIDS not only affects lesser-developed countries; an estimated 1.6 million HIV-positive people live in high-income countries. However, HIV-positive individuals in higher-income areas generally have access to treatment, including antiretroviral therapy (ART), and death rates are slowing significantly.

These brief snapshots of the global epidemic show its many regional differences. These differences are also found between countries in a region, and even within countries. The local context, including the characteristics of the epidemic, must drive the local strategy to address the AIDS epidemic.

#### PREVALENCE VS. INCIDENCE

These are two different measures of disease in a population. In the context of HIV/AIDS, prevalence is the proportion of people living with HIV/AIDS at a given point in time. Incidence is the number of people who contracted HIV/AIDS in a given period of time (usually one year). In high-incidence, low-prevalence countries, there are many new people becoming infected, but the overall proportion of HIV-positive people may still be relatively low. In this situation there is a need to focus on prevention of new cases. In low-incidence, high-prevalence countries, there is a lower number of new cases of HIV, but a high proportion of the population is already HIV-positive. In this situation, there is a need to focus on treatment, care, and support for people living with HIV/AIDS and to mitigate the impact of HIV/AIDS on households, communities, and sectors. Mature epidemics are characterized by the levelling off of HIV prevalence, high incidence, and high mortality; emerging epidemics are characterized by high incidence and low prevalence.

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<sup>5</sup> UNAIDS/WHO, 2004.

<sup>6</sup> Woods, 2004.

## 4. ECONOMIC IMPACT OF THE EPIDEMIC

Understanding the scale of the AIDS epidemic is important, but it is also important to understand its far-reaching impact. For the purposes of this paper, we will focus on the economic effects and will look at national or macroeconomic impacts, sector-level impacts, and impacts on firms and households—key players in the value chain. There is a large and ever-growing amount of literature on the economic impact of AIDS, summarized in Parker (2003). Although it is secondary to this paper's task of focusing on MSEs, a brief review of this literature is important to lay the context for the remainder of the paper.

### 4.1 MACROECONOMIC IMPACT

When the impact of individual HIV/AIDS illnesses and deaths are aggregated across sectors, the impact of AIDS on national growth is sizeable. Early studies of macroeconomic impact were based on estimations from simulation models with limited data. Such models predicted annual decreases in gross domestic product (GDP) of 0.6 to 1.2 percent.<sup>7</sup> Other, more dynamic simulations, such as Arndt and Lewis's study in South Africa (2001), predicted that GDP growth would be reduced by 2.6 percent per year.

Recently, the International Labour Organization (ILO) studied the actual impact of AIDS on GDP between 1992 and 2002 in 50 countries with differing HIV prevalence rates. The results showed that in the 41 countries where the economic impact of HIV/AIDS was measurable, the impact was on average a 0.9 percent reduction in the rate of GDP growth. In other words, without the impact of HIV/AIDS, the economies of these countries would have grown by 0.9 percent more per year. Although 0.9 percent may seem like a small number, when compounded over 15 years, AIDS would reduce economic growth by 14 percent. This is equal to a loss of approximately US\$17 billion per year for the group of 41 countries. The impact is also more severe in countries with higher prevalence, as demonstrated by the same ILO study, which estimated that for countries with a prevalence of 20 percent, HIV/AIDS reduced the rate of GDP growth by 2 percent per year.<sup>8</sup>

Looking forward to the next 10 years, it is likely that if HIV/AIDS prevalence remains at high levels in some countries and continues to rise in others, it will have an increasing toll on economic growth and on regional and global competitiveness of countries affected by the epidemic. AIDS reduces economic growth by affecting driving economic forces in three ways: (1) changing the population demographics by weakening those of working age and undermining the human capital base; (2) reducing the capacity of the public sector to support economic growth because of decreased revenues and diversion of resources to address the epidemic; and (3) negatively impacting private sector growth because of reduced productivity, increased costs, reduced savings patterns, and reduced national investment.<sup>9</sup>

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<sup>7</sup> Cuddington, 1993; and Kambou, Devarajan, and Over, 1992.

<sup>8</sup> Leather, 2004.

<sup>9</sup> Leather, 2004.

## 4.2 IMPACT AT THE SECTOR LEVEL—THE CASE OF AGRICULTURE

The impact of AIDS at the macroeconomic level is derived from its impact on different sectors of the economy. The agricultural sector provides a useful example to illuminate these impacts. The majority of MSEs in most developing countries are involved in agriculture, a sector with multiple products (and a multiplicative number of value chains), diversified markets, and ever-changing requirements. In addition, many of the current multisectoral AIDS efforts take place in the agriculture sector, which makes it a sector in which more effort has already focused on keeping MSEs affected by AIDS within high-value markets.

With up to 80 percent of developing-country populations dependent on agriculture for their livelihoods, it is not surprising that HIV/AIDS has already had a dramatic impact on the agriculture sector.<sup>10</sup> As discussed in more detail below, AIDS affects agricultural households by reducing labor availability and decreasing funds for investments such as fertilizer and seed. The result is reduced output and decreased productivity. In Zimbabwe, adult incapacitation and death from HIV/AIDS resulted in household harvest declines of 54 percent for maize, 52 percent for cotton, and 51 percent for sunflower.<sup>11</sup> The reduced output of these commercial crops demonstrates the impact of AIDS on MSEs engaged in productive markets in the agricultural sector. The impact of AIDS on the individual is also passed on up the value chain. A study on the impact of AIDS on labor productivity on a tea estate in Kenya showed that in the two years prior to their deaths, HIV-positive tea pickers picked an average of 4.9 kilograms less per day than the control group.<sup>12</sup> The scale of the problem becomes clear with a Food and Agriculture Organization (FAO) estimate that nine countries in southern Africa will lose between 13 and 26 percent of their agricultural labor force between 1985 and 2020; most of these are “microentrepreneurs” or household-based producers.<sup>13</sup>

At the household level, the additional labor and capital constraints resulting from HIV/AIDS not only result in reduced output, but also lead to shifts in crop choices and production methods, which have an important impact on the agricultural sector. These include shifts out of commercial or subsistence crops, depending on the sex of the affected individual, and a trend toward less-intensive agriculture. Overall, death of a male head of household tends to result in a shift to lower-labor, lower-capital, lower-risk, and traditionally female subsistence crops, which generally means a shift out of the commercial market. New female-headed households also face increased obstacles to accessing market information, credit, and extension because of gender disparity in access to resources, which results in reduced yields and decreased market access. The relationship between gender and production was demonstrated by a study in Kenya that found that the death of a male head of household resulted in a 0.9 acre reduction in area of cash crop planted and a 68 percent reduction in the value of crops, while the death of a female head of household resulted in a 1.8 acre reduction in area of cereal crop planted.<sup>14</sup>

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<sup>10</sup> FAO, 2004.

<sup>11</sup> Kwaramba, 1998.

<sup>12</sup> Fox, et al., 2003.

<sup>13</sup> FAO, 2004.

<sup>14</sup> Yamano and Jayne, 2003.



### 4.3 IMPACT ON FIRMS

HIV/AIDS impacts businesses that employ outside labor differently than it does households (the impact on which is discussed in the following section). Some MSEs are situated at the household level where labor is supplied from the household, but MSEs can also be part of the more formally structured private sector, employing outside (non-family) labor. The main impact of HIV/AIDS on firms results from the illness or death of employees or owners. Depending on the severity of the epidemic among employees of the firm, a business could lose profits or be forced to close altogether. It is possible to calculate the cost of AIDS to employers and their firms by analyzing the direct and indirect costs that are incurred because of HIV/AIDS using the matrix in Table 1.

**TABLE 1: COST OF AIDS TO EMPLOYERS**

	Direct Costs	Indirect Costs
Individual costs (from each employee with HIV/AIDS)	Medical care Benefit payments Recruitment and training of replacement worker	Reduced on-the-job productivity Reduced productivity due to absences Supervisor's time in dealing with productivity losses Vacancy rate until replacement is hired Reduced productivity while replacement worker is trained
Organizational costs (from many employees with HIV/AIDS)	Insurance premiums Accidents due to ill workers and inexperienced replacement workers Costs of litigation over benefits and other issues	Senior management time Production disruptions Depressed morale Loss of experienced workers Deterioration of labor relations

Source: Rosen et al., 2003.

These costs will vary based not only on the severity of the disease in the employee population, but also on the size and level of formality of the firm, the benefits provided by the firm to its employees, and the skill levels of the employees. Although the indirect costs are very difficult to measure, the direct costs are easier to quantify and to observe. Research has shown that firms without pension plans or medical aid schemes generally incur lower direct costs from AIDS than do more structured firms. At the same time, firms that invest in training their staff to help them carry out specific functions will incur higher costs for retraining than those that do not train their staff. For smaller businesses with less-skilled staff, the firm-level response is often to let the individual “disappear” and then replace him with another low-skilled individual. Whenever an employee dies, all firms generally incur some additional costs.

Firms of different sizes— micro, small, medium, or large—have different cost structures with regard to the response to HIV/AIDS. Table 2 presents a rough framework for understanding which of these direct costs are most likely to be incurred by different sizes of enterprises.

**TABLE 2: LIKELIHOOD OF ENTERPRISE INCURRING DIRECT COSTS DUE TO HIV/AIDS**

	Size of Enterprise			
	Micro	Small	Medium	Large
	Informal Sector, Less Structured		Formal Sector, More Structured	
Pension plans	N/A	Rare	Occasional	Extremely common
Medical aid	N/A	Rare	Occasional	Extremely common
In-house dispensary	N/A	N/A	N/A	Extremely common
Training and recruitment	Very low	Low	Occasional to medium	Extremely common
Costs of litigation	N/A	N/A	Medium	Extremely common
Insurance premiums	N/A	N/A	Medium	Extremely common

Table 2 shows that *direct* costs associated with HIV/AIDS rarely affect MSEs, but become an increasing concern as enterprises become more formal. However, the *indirect* costs cited in Table 1 exist for the full range of firms, from micro to large, and have been quantified in recent studies. In one study of a sugar mill in South Africa, 26 percent of all tested workers were HIV-positive and these workers took 55 more days of sick leave during their last two years of life than those not infected with HIV/AIDS.<sup>15</sup> Another study, in Kenya, found that HIV-positive tea pickers were absent for an average of 31 days more than their HIV-negative coworkers.<sup>16</sup> In fact, the relative impact of decreased productivity from absenteeism or illness and the loss of even one experienced employee can have a devastating impact on a small firm. In a study on MSEs in the South African tourism sector, 88 percent of respondents felt that AIDS was affecting their business through absenteeism, increased recruitment and training costs, loss of clients, or increased medical insurance costs. Smaller companies were most concerned with the impact of absenteeism.<sup>17</sup> In another South African study, 23 percent of MSEs indicated that they had experienced AIDS-related deaths and increases in absenteeism that were negatively impacting their firms.<sup>18</sup>

Because microenterprises generally do not pay for certain AIDS-induced direct costs, which larger firms do, the costs associated with formalization of firms is exacerbated by AIDS. In many countries, the costs associated with formalization are already a factor keeping MSEs in the informal sector. The nature of the informal sector, in turn, can keep small firms in lower-earning categories and prevent their participation in more lucrative value chains within formal markets. In environments where formality comes with enforcement of labor laws, HIV/AIDS can compel small firms with growth potential to remain in the informal sector longer.

Firms respond to the pressures of AIDS with measures designed to protect against increased costs. Reducing the cost of AIDS-infected employees to the firm will enhance the ability of the firm to weather the storm and remain in business. The larger the firm, the greater its ability to respond because of the greater financial and staff resources it can apply to the problem. Larger firms' options include:

- Introducing workplace policies and programs to offer prevention, treatment and mitigation programs for their employees, suppliers, and community;
- Outsourcing specific functions to MSEs in areas where prevalence and risk are highest, leaving the burden of the epidemic on the household, the MSE, and the public sector;<sup>19</sup>
- Conducting cross-training to reduce replacement costs and loss of productivity during absentee and replacement periods;
- Moving infected employees to less-demanding positions; and
- Shifting to day labor.

For smaller firms, these options are more difficult to apply. Small businesses tend to have weaker and shallower management structures, where the owner is the sole manager of all functions. The result is

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<sup>15</sup> Morris, Burdge, and Cheevers, 2001; and Forsythe, 2002.

<sup>16</sup> Fox, et al., 2003.

<sup>17</sup> ECIAfrica, undated.

<sup>18</sup> Fraser, et al., 2002.

<sup>19</sup> Rosen and Simon, 2003.

that new challenges tend to be ignored because management lacks the time or understanding to address the problem. In addition, costs per employee are higher when providing a limited response for a few employees as opposed to a large number of employees. One South African study showed that 70 percent of companies currently purchasing AIDS services were large, 26 percent were medium-sized (50–200 employees), and only 4 percent were small (20–49 employees).<sup>20</sup> This may be a reflection of the relatively high cost of providing AIDS services for smaller enterprises because of economies of scale in service provision, but it might also reflect the ability of the firm management at larger enterprises to take on the new challenge. For companies with fewer than 100 employees, the cost of service per employee per month is estimated at approximately \$32; for companies with more than 4,000 employees, the cost is \$5.<sup>21</sup> It is hardly surprising, then, that a greater proportion of larger firms are engaged in prevention and mitigation activities.<sup>22</sup> Informal MSEs, by contrast, are left with few options and are more likely to dismiss an HIV-positive employee or do nothing about his or her status.<sup>23</sup>

Many of the smaller more formally structured firms are responding, or trying to respond, but it is difficult for a small business to develop and implement an effective program.<sup>24</sup> A truly valuable workplace program needs to address three elements: (1) preventing the spread of HIV/AIDS; (2) mitigating the negative impact on staff members who are either infected or affected; and (3) creating a working environment that is at ease with the presence of the disease. But MSEs have scarce resources, usually do not know what to offer, and are not provided with a set of “MSE-friendly” HIV/AIDS products from which to choose.

#### **4.4 IMPACT OF HIV/AIDS ON HOUSEHOLDS**

Individuals and the households in which they live are at the center of the epidemic, so understanding how HIV/AIDS affects households provides critical insight into how to mitigate its impacts. Both MSEs that are located at the household level and directly draw on labor from the household and those that are in the formal private sector are vulnerable to the effect of AIDS on the households of employees and owners, which can result in the collapse of a business.

As HIV progresses to AIDS, individuals gradually withdraw their labor from self-employment, agriculture, or formal sector employment, initially due to illness and ultimately because of death. During the period of illness, other household members withdraw a portion of their labor as well, to care for the sick member. Both of these trends affect the ability of households to participate in the cash economy. They also result in significant drops in household income at the same time that medical and funeral costs rise precipitously.<sup>25</sup> A study in Côte d’Ivoire found that during the period of illness, households affected by AIDS had a 60 percent reduction in income and a 400 percent increase

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<sup>20</sup> For the purposes of the study, AIDS services included cost analysis; seroprevalence surveys; workplace policies; information, education, communication (IEC); voluntary counseling and testing (VCT); treatment of sexually transmitted infections (STIs) and opportunistic infections; and ART.

<sup>21</sup> Connelly and Rosen, 2003.

<sup>22</sup> Fraser, et al., 2002.

<sup>23</sup> ECIAfrica, undated.

<sup>24</sup> Fraser, et al., 2002.

<sup>25</sup> Greener, 2002; Bollinger, Stover, and Riwa, 1999; and Donahue, 2000.

in medical expenses.<sup>26</sup> Another recent report stated that according to three different studies, the healthcare and funeral costs from an AIDS death resulted in direct costs that were between 50 and 100 percent of *annual* household income.<sup>27</sup> Clearly, AIDS causes economic stress on the household.

Women's labor and, therefore, women's activities, are particularly taxed in AIDS-affected households because they serve as primary caregivers of the sick or orphaned.<sup>28</sup> AIDS also results in an increase in the number of women- and children-headed households, which are generally disadvantaged in terms of barriers to resources such as land titles, microfinance, extension, and market information. In addition, inheritance practices in many areas lead to women and children being disinherited after the death of a male head of household. All of these issues result in increased vulnerability of this already vulnerable group.<sup>29</sup>

Understanding how households react in the face of economic shocks is fundamental to understanding the development of solutions. Table 3 presents various economic coping strategies that are adopted by households during an economic crisis, such as that caused by HIV/AIDS. Families' coping options depend on their initial economic status. The poorer the household, the more likely it may be forced to opt for less reversible strategies that further weaken its future economic options. Such choices push the AIDS-affected family into a downward spiral of deeper poverty and increasingly irreversible strategies as the crisis continues. These cycles of coping strategies have been documented. For example, a recent FAO study showed that AIDS-affected households use fewer agricultural inputs, have less crop diversity, and cultivate less land.<sup>30</sup>

**TABLE 3: ECONOMIC COPING STRATEGIES OF HOUSEHOLDS**

Initial Economic Status	Characterization	Strategies to Cope with Loss
I. Marginal	Reversible mechanisms and disposal of self-insurance assets	<ul style="list-style-type: none"> <li>• Seeking wage labor or migrating to find paid work</li> <li>• Switching to producing low-maintenance subsistence crops</li> <li>• Liquidating savings accounts; selling jewelry, livestock</li> <li>• Calling on extended family or community obligations</li> <li>• Borrowing from formal or informal sources of credit</li> <li>• Reducing consumption and decreasing spending (education, health)</li> </ul>
II. Poor	Disposal of productive assets	<ul style="list-style-type: none"> <li>• Selling land, equipment, tools, or animals used for farming</li> <li>• Borrowing at exorbitant interest rates</li> <li>• Further reducing consumption, education, health</li> <li>• Reducing amount of land farmed and types of crops produced</li> </ul>
III. Poorest	Destitution	<ul style="list-style-type: none"> <li>• Depending on charity</li> <li>• Breaking up household</li> <li>• Distress migrating</li> </ul>

Source: Chen and Dunn, 1996.

The process of deteriorating economic status can be related to the progression of AIDS in the household. As shown in Figure 2, the financial pressure on a household increases dramatically in the

<sup>26</sup> UNAIDS, 2000.

<sup>27</sup> Russel, 2003.

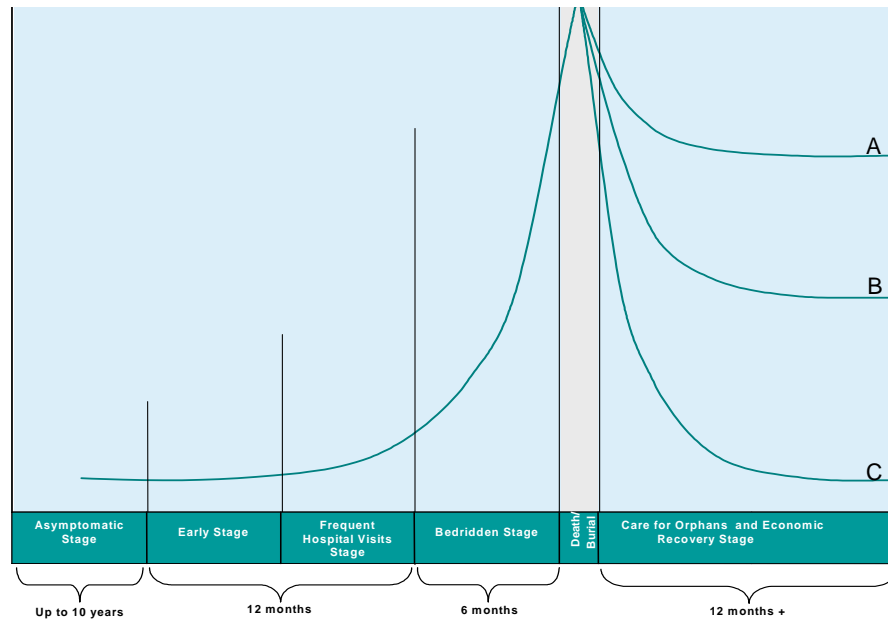
<sup>28</sup> Leather, 2004.

<sup>29</sup> Strickland, 2004.

<sup>30</sup> FAO, undated.

six months before death, reaching its peak at the time of death. During this period, the HIV-positive individual requires greater medical attention and care, and at the time of death the household must bear the funeral costs.<sup>31</sup> These financial pressures are specific to AIDS because of the drawn-out nature of the illness and the fact that AIDS often affects more than one household member. This makes AIDS-affected households particularly vulnerable to the negative cycle of increasingly irreversible coping strategies described above. In addition, it leaves households progressively less able to participate in commercial activities that require a basic level of human and financial capital.

**FIGURE 2: FINANCIAL PRESSURE ON HOUSEHOLDS**



Source: DAI, 2003

After an AIDS death, a household’s subsequent level of financial pressure, depicted by three possible “recovery curves”—A, B, and C—depends upon its ability to have established and maintained a safety net before and during the crisis. Households that can return to pre-crisis conditions (C) or move toward pre-crisis conditions (B) are likely to have had the following: (1) avoidance of irreversible coping strategies that cause long-term economic damage to the household during the crisis period; and (2) pre-crisis coping strategies aimed at economic diversification and asset building.

A range of pre-crisis coping strategies are presented in Table 4. This list indicates the constructive role of business activity and income generation in the pre-crisis stage. The coping strategies relied upon during the crisis (presented in Table 3 above) illustrate the potential dangers if households have not mobilized—or have exhausted—these pre-crisis strategies.

<sup>31</sup> ECIAfrica, 2003.

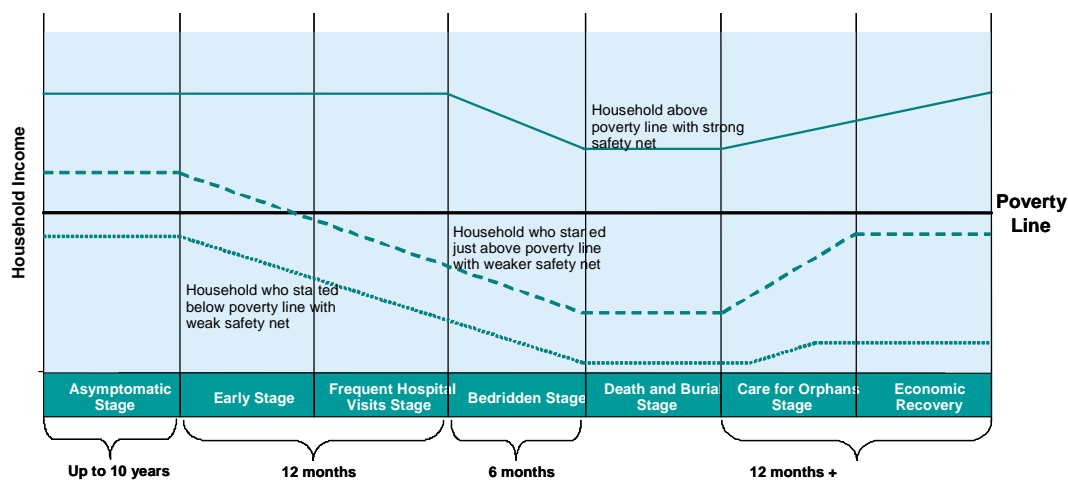
**TABLE 4: COPING STRATEGIES**

Household Pre-Crisis Coping Strategies
Diversify sources of business income
Increase business volume
Improve financial discipline and anticipate needs for lump sums of cash
Build up savings
Build up easily liquidated productive assets
Enhance position in social networks to later tap into family or community support

Source: Adapted from Donahue, Kabbucho, and Osinde, 2001.

This relationship appears in field studies as well. Surveying economically active households in Kenya and Uganda, Donahue, Kabbucho, and Osinde (2001) studied two cohorts: those who entered the AIDS crisis well above the poverty line with a strong safety net, and those who entered the crisis only marginally above the poverty line. Figure 3 presents a stylized picture of these two groups and illustrates how quickly they would be required to resort to coping strategies, and how quickly they would be able to recover after the crisis. The bottom line was added to the picture for this paper, recognizing that there is also a group that begins below the poverty line and can be expected to recover even more slowly and less completely after the crisis passes.

**FIGURE 3: HOUSEHOLD SAFETY NET**



Adapted from Donahue, et.al., "Silent Crisis," 2001

Clearly, households that have strong safety nets in place before an HIV/AIDS crisis and can avoid reverting to irreversible coping strategies during the crisis are best able to cope during the period of illness and death. These households are then able to maintain their participation in economically viable activities, including operating their own MSEs or providing labor to other MSEs. Keeping the household productive is key to keeping MSEs operational. It is also possible to draw some lessons from mitigating the impact of AIDS on households to apply in the arena of MSEs. MSEs that have better safety nets in place are more likely to be able to avoid irreversible coping strategies (such as sale of assets or borrowing at exorbitant interest rates), and so are more likely to survive the impact of AIDS on the business. Value chain analysis provides us with an opportunity to understand the MSEs' interactions in the market, helping us to specify the particular constraints and opportunities faced by AIDS-affected MSEs.

## **5. CONSTRAINTS TO VALUE CHAIN PARTICIPATION BY AIDS-AFFECTED MSEs**

Even before the appearance of HIV/AIDS, MSE participation in value chains was constrained by numerous factors—limited resources with which to serve the market, high transaction costs for both MSEs and their commercial partners, significant risks within value chain relationships, and lack of market information, understanding, and access. HIV/AIDS exacerbates these constraints in three ways: (1) by directly affecting the MSE in the value chain; (2) by affecting related players in the value chain; and (3) by affecting the interaction of players in the value chain—and, indeed, in the larger subsector. This chapter begins with a discussion of these constraints, illustrated by the example of the Kenyan green bean subsector.

### **5.1 CONSTRAINTS**

Four key constraints—all of which are common to MSEs even in a non-AIDS setting—come into sharper relief in the context of HIV/AIDS: limited labor, financial, skill, and social capital resources; high transaction costs; significant risks for value chain participants; and lack of market information, understanding, and access.

#### **5.1.1 LIMITED RESOURCES**

MSEs are characterized by limited resources in terms of workforce, financial resources for investment, prior experience, special skills, and limited contact with those who can support the development of the business. These resource constraints make it difficult for MSEs to meet scale and quality requirements, reducing their attractiveness as suppliers to larger firms. In addition, the inability to meet a range of differentiated grades and standards that meet the demands of local, regional, or global markets often prevents MSEs from receiving differentiated pricing and excludes them from higher-value markets. Adhering to standards and regulations that dictate product characteristics, packaging requirements, and processing procedures<sup>32</sup> can be cost prohibitive to MSEs.

As discussed above, HIV/AIDS results in further declines in households' and MSEs' labor availability, skill base, financial condition, and productive assets, often in unexpected and therefore hard-to-resolve ways. Unexpected absenteeism may result in failure to deliver on time; loss of a key skill due to the death of a worker may shift an MSE out of a market niche entirely; lack of financial capital may translate into an inability to buy raw materials to produce on order. Because AIDS illnesses drag on over several years, these constraints recur repeatedly, leading to further withdrawal of the MSE from the marketplace over an extended period of time.

For MSEs in commercial agriculture, the HIV/AIDS impact is especially dramatic: heavy chores such as tilling are left undone, inputs are not purchased, and dates of key events such as planting or harvesting are missed due to illness.

#### **5.1.2 HIGH TRANSACTION COSTS—THE COST OF DOING BUSINESS**

Transaction costs are the nonfinancial costs associated with doing business. They include the costs of learning about opportunities, negotiating terms, and enforcing contracts.<sup>33</sup> Firms working with MSEs

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<sup>32</sup> Nadvi, 2004.

<sup>33</sup> North and Thomas, 1972.

also face higher transaction costs because of the increased time dedicated to ensure that standards are met, higher costs from negotiating with many individual MSEs, and increased costs per unit for collection of product from dispersed collection points. In sum, many of the high transaction costs involved in working with MSEs are derived from issues of quality and quantity.

As discussed above, MSEs coping with AIDS face additional hurdles in producing the quantity or quality demanded by buyers, which further increases transaction costs. Take, for example, a buyer of round potatoes who purchases at the farm gate. If, on average, each farm produces only 50 percent of the potential potato crop due to labor and capital constraints from HIV/AIDS, the buyer's costs of collection double, as do the number of relationships the buyer must develop and maintain. All else equal, in an HIV/AIDS environment, buyers will shift away from MSEs unless other steps are taken to reduce transaction costs. Transaction costs for MSEs are also increased by HIV/AIDS during the period of progressive illness when key MSE workers may be isolated from business contacts due to illness or caregiving; this increases the effort required to find marketing opportunities and negotiate contracts.

### **5.1.3 RISK FOR MSEs AND LARGE FIRMS**

MSEs and larger firms all face business risks. MSE risk stems from power imbalances, where large firms determine terms and conditions of purchases, set and enforce standard requirements, and distribute profits through the value chain. Conversely, large firms risk that MSEs will be unable to deliver the required quantity or quality on time, or that they will choose to side-sell if a cash buyer with a stronger offer shows up. Risks are reduced primarily by forming trust relationships, based on experience with a given buyer or seller, which convince both parties that risk can be managed.

As a specific example, in Kenya, contract green bean producers will agree before planting to produce a specified quantity of beans for sale at a given price in return for up-front access to seeds and inputs. At harvest time they might be offered a higher price by another broker and may sell to get the higher price, or they may choose to accept the contract price if it is higher than the going market price. The farmer who does not have a contract may not be able to find a market at all or may be forced to take a very low price at harvest time. The company risks that it may pay a higher-than-market price at harvest time. Similarly, exporters have been known to reject beans when the supply exceeds demand and prices are pushed downward, citing issues of quality, when in fact the problem was that the exporters did not want to buy what they could not sell. Both sides can cause mistrust.

HIV/AIDS reintroduces a significant level of uncertainty and change into this already delicate risk equation. In a health emergency, MSEs may have no recourse but to side-sell their inventory to raise rapid cash, thereby undermining the trust relationship.<sup>34</sup> This was observed in crisis conditions in Zimbabwe, where sellers of black-eyed beans reneged on contracts under the stress of famine, and the buyer moved to other countries to purchase.<sup>35</sup> Or AIDS may claim the life of one of the parties central to the trust-based relationship, such as the owner of the MSE, in which case the buyer may no longer trust that the MSE will understand his needs and provide the same goods or services.

AIDS-affected MSEs also face greater risk in entering contracts they may not be sure they can deliver, particularly if the workforce turns over rapidly to include less-skilled or less-able workers or owners. They also risk losing contracts because of the stigma attached to HIV/AIDS, even if they are able to deliver all of the contract requirements.

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<sup>34</sup> Brenneman, 2000.

<sup>35</sup> Interview with Joan Parker, Director, Development Alternatives, Inc. HIV/AIDS Response Team, October 7, 2004



#### 5.1.4 LACK OF MARKET ORIENTATION

Understanding and assessing what the often-distant final consumer is buying is key to an MSE's ability to participate in a value chain and maintain a buyer for a given product or service. An incomplete understanding of market trends and conditions, as well as irregular access to timely and accurate market information, are substantial weaknesses of MSEs. These weaknesses can be traced to several causes, in particular poor communications infrastructure, limited direct contact with buyers who can provide information on product specifications and current prices, and limited personal knowledge of the end product.<sup>36</sup>

AIDS-affected MSEs face even greater challenges. Key MSE employees have less contact with business associates because of illness or caregiving. In addition, HIV/AIDS often results in increased numbers of woman-, child-, and elderly-headed households; these populations are less connected to markets and tend to have fewer business contacts, less personal experience, and less awareness of and access to systems of market information. If they are unable to bridge this gap, buyers are likely to source services or products elsewhere to reduce their risk, as discussed in section 5.1.3 above.

#### 5.2 SUBSECTOR CASE STUDY: GREEN BEANS IN KENYA

Understanding the challenges facing MSEs in the value chain can best be accomplished through an example: in this case, the green bean subsector in Kenya. Once this subsector map—a diagram of the value chains serving the subsector—is clear, we will add an HIV/AIDS overlay.

The green bean subsector map, shown in Figure 4, presents three channels producing and exporting green beans from Kenya. Vertically, it shows the flow from production (bottom) to market (top) and identifies the types of firms participating in the various delivery channels. Because green beans are an export crop, the Kenyan value chain is tied into a global value chain (exporters). Note that there are small, medium, and large enterprises in each of the value chains that interact by buying and selling from—and competing with—one another. Knowledge of market information from the foreign buyers is critical for the profitable production of the green beans down at the producer level.

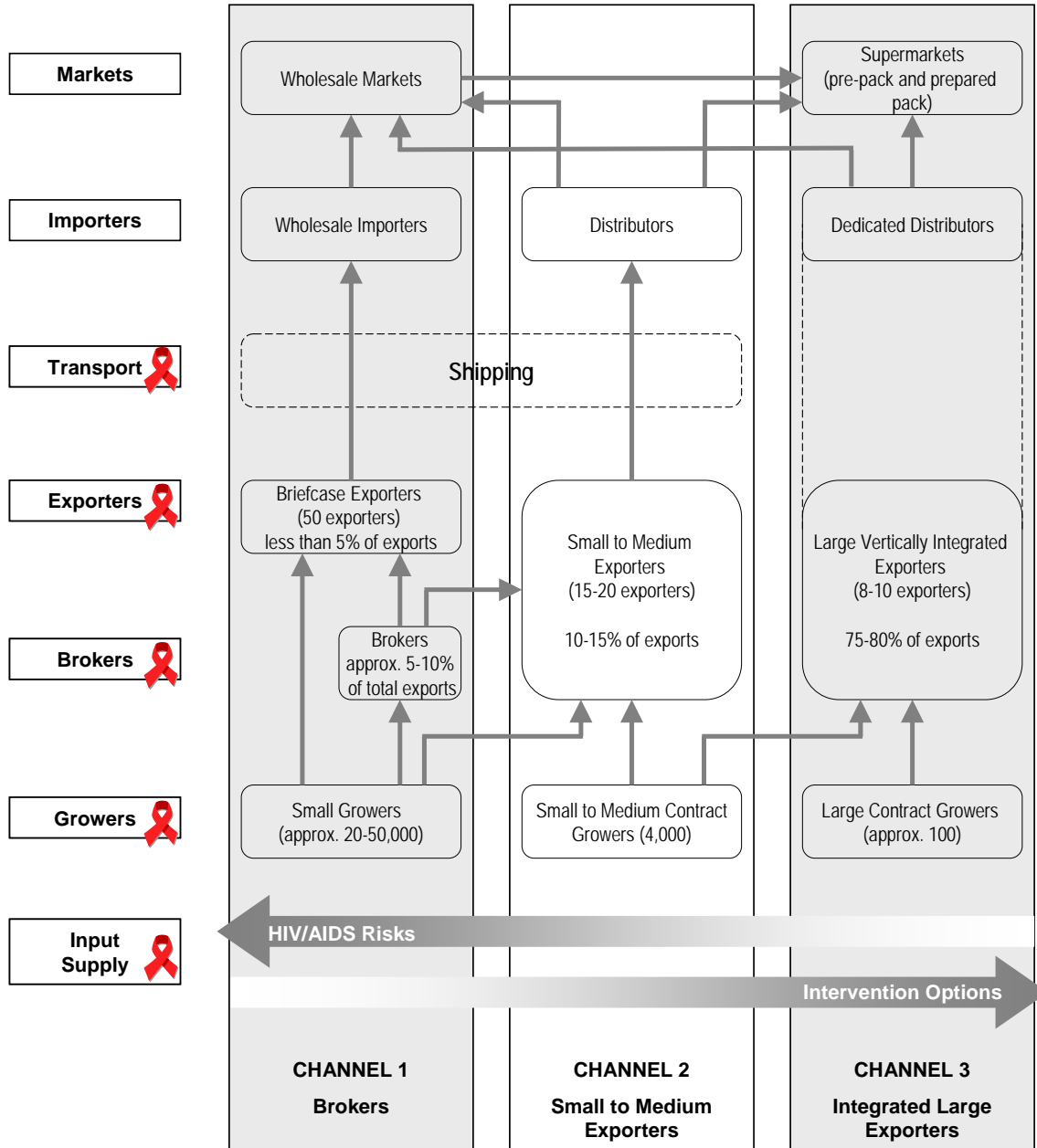
This industry has experienced a great deal of change over the past 20 years. Initially, the industry was dominated by small growers and exporters, but because of changing market characteristics and market policies, it is now dominated by large exporters. The small farmers are currently facing tremendous technical challenges to adapt their production methods and links to larger firms. If they are unable to do so, they will fall out of the productive value chains of the subsector.

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<sup>36</sup> Kaplinsky and Readman, 2001.

5.2.1 OVERVIEW OF THE SUBSECTOR AND ITS DYNAMICS

FIGURE 4: SUBSECTOR MAP OF KENYA GREEN BEAN EXPORT MARKET



The “HIV/AIDS Risks” arrow shows that risks of HIV/AIDS are higher as one moves to the left of the map—toward the channel dominated by small producers. The “Intervention Options” arrow shows that, conversely, the potential to intervene in an effective and efficient way is higher as one moves to the right of the map—toward the channel dominated by the large producers. This inherent

imbalance may tip the industry further toward Channel 3, which is dominated by the larger producers and exporters.

The section below discusses each of the value chains in more depth, examining the role of MSEs.

**Value Chain 1—“Broker Channel.”** In value chain 1, all of the businesses are small and most are micro. At the production stage, most small growers are household-based and are independent. They either sell to brokers or directly to small exporters, both of which are also MSEs. This channel is the weakest of the three channels: the least amount of information is transmitted to the producers by buyers and they are not able to keep accurate records of chemical and pesticide application, which are now required by Kenya’s largest market, the European Union (EU).

**Value Chain 2—“Small to Medium Exporter Channel.”** In value chain 2, the exporters get most of their product from contracted small to medium-sized farmers or well-structured groups of smaller outgrowers with which they have a regular working relationship. The exporters usually provide the growers with the inputs needed to produce the quality and quantity the exporter seeks. The growers and exporters in value chain 2 are becoming more formalized, with stronger and more formal relations between the various actors.

**Value Chain 3—“Integrated Large Producers Channel.”** This value chain is dominated by large integrated exporters that are closely tied into both markets and production through even stronger contractual or ownership relations. Because of the stronger links to the markets, they are better able to predict supply requirements over the course of the year and hence to better organize their production and supply capacity. The large integrated exporters work less with small contract growers because of their small supply and irregular respect for contracts. The integrated exporters must be able to trace and control production practices. Being uncertain about the specific attributes of produce from small growers, they avoid contracts with them.

**Subsector Dynamics.** In order to understand the opportunities for MSEs in general in the subsector, one must look at the dynamics within the subsector: what is changing and why. Though the green bean industry in Kenya grew up out of the smallholder farmers (value chain 1), it is now becoming more vertically integrated right up to the markets, concentrated in value chain 3. The smallholders, who are essentially MSEs, are in danger of gradually being squeezed out of the sector. In order to keep them in the subsector, we must understand the shifting dynamics and how to help the MSEs to adapt. The dynamics within the subsector are driven by two main forces:

- The EU policy environment, which is making traceability of inputs a critical point in the production process. Farmers must be able to record the exact quantities and concentrations of inputs (pesticides, fertilizers, and so on) being applied to specific plots and be able to report on it.
- The increasing role of large supermarkets in spurring vertical integration of the value chain from production to marketing to end consumers. The large supermarkets are increasing their hold on the value chain and dictating the conditions to the producers—conditions that can be met effectively only by the larger, vertically integrated firms.

Both of these forces work against MSEs, which do not have the capacity to trace their inputs or the power to interact with the supermarkets. Therefore, to keep active in the subsector, MSEs must upgrade their abilities and enhance their relationships with the larger exporters that are directly linked to the markets.

## 5.2.2. OVERVIEW OF THE IMPACT OF HIV/AIDS ON THE MSEs IN THE SUBSECTOR

What happens to MSEs in the green bean subsector in the context of HIV/AIDS? The increased challenges brought about by HIV/AIDS make all of the issues laid out above even more challenging. We reanalyze the value chains here, from the perspective of how HIV/AIDS affects the players in each one.

**Value Chain 1—Small Growers:** If HIV/AIDS affects small informal growers, they will be at serious risk of falling completely out of the green bean market. The AIDS-induced labor constraint may cause small growers to shift out of green beans and into crops with less sensitivity to the timing of each stage of production. Cash constraints might also force them out of the channel because they do not have credit relations with the exporters to provide them with the expensive inputs. These producers are at the highest risk of downgrading to small subsistence production adopting low-yielding food crops.

**Brokers:** Moving up this value chain, the brokers and “briefcase exporters” are also small businesses. They have developed relations with buyers in the European markets and have specialized knowledge, but they may exit the market due to lack of key expertise if the owner is affected by HIV/AIDS, or if their quantity of product is greatly reduced because of decreased supply from their small growers.

**Value Chain 2—Contract Growers:** As the HIV/AIDS Risk arrow in Figure 4 shows, HIV/AIDS can increase the risks to small and medium-sized contract growers because AIDS-related time constraints could cause them to lose their subcontracts and to downgrade back to channel 1. In channel 2, the small farmers are better informed and trained in the proper application and recording of pesticide and chemical use on their beans. They are more highly skilled than the small growers in channel 1. If AIDS causes a contract grower to lose the individual who embodies those skills, it will lose its contract. These small firms are also dependent on outside labor to harvest the beans for collection at specific points in time. They are therefore likely to suffer from reduced and possibly more expensive labor for harvesting and weeding, which is already a constraint for small growers that are increasing production. In addition, if a household needs extra money to meet AIDS-related emergencies, the small businesses might be forced to sell some of their equipment or land since their capital is tied up in their crops.

**Exporters:** The small exporters are aggressively competing for market links and market share in Europe. Although the owners do less direct purchasing themselves, they rely on agents who purchase for them. These agents travel extensively and know the locations of all of the contractors and other good clients, but this very mobility may put them at increased risk of HIV. The small exporters also employ staff to process and pack the beans. HIV/AIDS can affect their employees, and possibly even themselves, reducing the labor supply of skilled sorters and packers of beans. Rising EU traceability and packaging standards increase the importance of having well-trained staff who know what to look for and how to pack the product to meet the market needs. Although risks and costs are likely to go up, these exporters are able to train stand-by workers who fill in during times of labor shortages. The main goal is to avoid even a single problem with quality at the point of import, which can put a small exporter out of business.

**Value Chain 3—Large Contract Growers:** Although this channel accounts for 75–80 percent of the total bean exports, it has the lowest rate of MSE participation. However, it can also be greatly affected by HIV/AIDS because the large contract growers are susceptible to labor shortages and drops in productivity from their employees falling ill, taking care of infected family members, or attending funerals, especially during key periods of activity. These firms also risk losing supply from their small contract growers, as described above. However, they are in a position to take mitigating action: to put significant health programs in place, to change terms of purchase, or to cross-train essential workers.

*Options.* In the green bean subsector, HIV/AIDS has magnified resource constraints, transaction costs, risk factors, and information limitations. In some cases, it has directly forced MSEs out of business. In other cases, it has increased the risks of working with MSEs in a given value chain. These results are not exclusive to this subsector—they reflect expected processes in most value chains with MSE participation in high-prevalence HIV/AIDS areas.

What options are available to help smaller enterprises offset the pressures of HIV/AIDS? Chapter 6 highlights strategies that may be able to offer initial methods of countering these forces.



## 6. APPROACHES TO KEEP HIV/AIDS-AFFECTED MSEs IN MARKETS

If HIV/AIDS exacerbates pre-existing barriers to MSE participation in lucrative markets, what options are available to keep AIDS-affected MSEs in these markets? Development practitioners trying to reach AIDS-affected populations have examined existing microenterprise development programs' abilities to overcome the core challenges discussed above. Viewing existing programs through an "AIDS lens" has led practitioners to modify standard programs to make them more AIDS-compatible than traditional microenterprise support programs. This process of using the "AIDS lens" has led to additional experimentation and innovation, drawing together different program elements to achieve a more appropriate programming package.

One of the key factors that determines an MSE's ability to survive an HIV/AIDS crisis is the safety nets that are in place before the crisis strikes. Approaches that strengthen safety nets for MSEs in high-prevalence areas or MSEs that are particularly at risk, have a mitigating effect when that MSE does encounter an AIDS crisis. Many of the strategies listed below are field-tested examples that provide a safety net to support AIDS-affected MSEs.

The approaches described in the sections below are primarily market-based strategies that have been designed to mitigate the impact of HIV/AIDS on MSEs. This means that the delivery of the services can be integrated into other business models allowing them to be self sustaining business services, once they are up and running. As with most business development support activities, there is an initial investment (often in the form of a donor grant, or subsidy) required to overcome market failures and make these services independently viable. Alternatively, they can be delivered as part of a basket of services by a business support organization that might derive its funding from multiple sources.

The issue of the level of required subsidy is as important for developing HIV/AIDS related services as it is for developing other business development services that support upgrading MSEs, accessing new inputs or technologies, etc. In fact, given the nature of the crisis, a one time subsidy to a firm to keep it from collapsing (and allowing it to continue with other viable business activities) may be a wise investment.

There are other strategies—more targeted but less market-focused—that can also strengthen MSEs' safety nets before a crisis and thus prevent the MSEs from falling out of the market. Although these approaches are not commercially based, they raise some interesting questions:

- Is a short-term subsidy a good investment if it will enable an MSE to survive a crisis and return to financial viability?
- Is a short-term subsidy not better than allowing an otherwise viable MSE to collapse and its employees to fall into destitution and dependence?

The high but widely dispersed cost of AIDS-related enterprise failures suggests that the provision of basic levels of information and skills that allow MSEs to weather the effects of AIDS might constitute a public good. Some of the challenges to determining appropriate public good services include:

- Difficulty in determining the cut-off point for subsidized programs, which could result in endless subsidies instead of once off short-term support;
- Difficulty in discriminating among MSEs to determine which actually need the subsidy and which are merely taking advantage of a free benefit; and

- Difficulty in determining which MSEs are financially viable in the long term and need only a short-term subsidy to see them through the crisis, as compared to those MSEs that will never be financially viable and should not be “kept alive” by artificial means.

As we look at the approaches laid out below, it is important to keep in mind just how sustainable the services can be, the level of investment or subsidy needed to get the activity up and running, and the trade off between services that function as public goods and those that are strictly business oriented and serve the commercial interests of the MSEs.

## **6.1 APPROACH: SERVICES TO SUPPORT AIDS-AFFECTED MSEs**

### **6.1.1 STRATEGY: ASSET PROTECTION VIA FINANCIAL SERVICES**

Protecting assets—particularly land, livestock, tools, and other productive assets—during the AIDS crisis is key to ensuring the continuation of an MSE’s participation in commercial activities. For most MSEs, asset protection takes place at the household level.

There are two main factors that lead to the loss of assets by the AIDS-affected: pressure to sell assets to meet emergency financial needs of the household, and “asset grabbing” or reallocation of assets to extended family members after a death. The possible strategies for prevention of asset sales are discussed here; strategies for prevention of asset grabbing are discussed in the following section.

Prevention of asset sales requires access to alternative financial resources—on an emergency basis—that meet the individual’s need for cash. Microfinance, both formal and informal and both savings and credit, strengthens the ability to build assets and keep assets for the household and MSE. It can be used as a tool to build resilience to the effects of HIV/AIDS—but only if it is in place before the MSE is affected by AIDS. Findings from research on AIDS-affected households in Uganda showed that households with established microfinance relationships were better able to cope with the effects of HIV/AIDS.<sup>37</sup> These microfinance institution (MFI) clients cited the following factors as contributors to improving their coping strategies:

- Access to credit to start, improve, or diversify their businesses;
- Better money management skills and savings discipline;
- More and better-organized informal support groups where members pool savings against future emergencies; and
- More readily available information about treatment for family members with HIV/AIDS, enabling caregivers to better manage AIDS-related illnesses.

This improved access to financial resources directly addresses the financial constraint imposed on an MSE by HIV/AIDS. In addition, because the financial support greatly decreases the risk of failure of the MSE, it reduces both the risk and the transaction costs associated with doing business with the MSE. Financial services can also provide an opportunity to distribute information to MSEs on HIV/AIDS, or on production and marketing. Microfinance is not a magic bullet that can eliminate the effects of HIV/AIDS on a household, and HIV/AIDS must be taken into account by the MFI. If improperly managed, loans can become a burden on an already stricken family, and, if collateralized, lead to even more rapid loss of assets. Savings that appear adequate for the family’s needs before HIV/AIDS may be quickly depleted, leading to the need for emergency loans. Microfinance

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<sup>37</sup> Donahue, Kabbucho, and Osinde, 2001.



eligibility requirements must also remain attainable to families in crisis, or they will be forced to exit the institution exactly when they most need its services. In addition, MFIs must protect themselves from the risk of providing loans to the terminally ill; the best mechanism for this is loan insurance for all borrowers in the portfolio. With careful planning, microfinance programs can retain their financial discipline and still serve AIDS-affected populations (see box).

#### **OPPORTUNITY INTERNATIONAL MICROINSURANCE PRODUCTS**

In an effort to mitigate the risk to MFIs and their clients from HIV/AIDS, Opportunity International has designed microinsurance products that enable HIV/AIDS-affected individuals to continue to access credit without placing undue risk on the MFI. These products include credit life insurance, critical illness coverage, and funeral benefits insurance.

##### **Credit Life Insurance**

Opportunity International designed a credit life insurance product that provides life insurance for all borrowers equal to the total value of the principal, interest, and fees of the full term of the loan. In the event that the client dies, the outstanding principal, interest, and fees are paid out to the MFI by the insurance company and the loan balance is cleared. The MFI pays monthly premiums for active loans and recovers the costs from all clients via a fee or the interest rate. The insurance is often provided by a local insurance company. There is little discrimination against HIV/AIDS-affected clients because this is a nontargeted program so they are not identified.

##### **Critical Illness Insurance**

MFI clients are also provided with critical illness coverage that is triggered following a period of 30 days of illness that restricts the client from working. The insurance provides the client with up to three months of loan repayments, paid to the MFI by the insurance company.

##### **Funeral Benefit Insurance**

“Ntula” is a funeral benefit insurance product administered by CETZAM Opportunity Microfinance Limited in Zambia. The word “Ntula” means “to share someone else’s burden.” The MFI clients pay a small weekly premium as part of the loan repayment and, in the event of death of an individual covered by the policy, the family receives a payout that it can use to meet costs associated with the funeral. The MFI client plus five of his or her dependents are covered by the policy and the payout exceeds the average funeral expense to assist the households with protecting assets during this period of crisis.

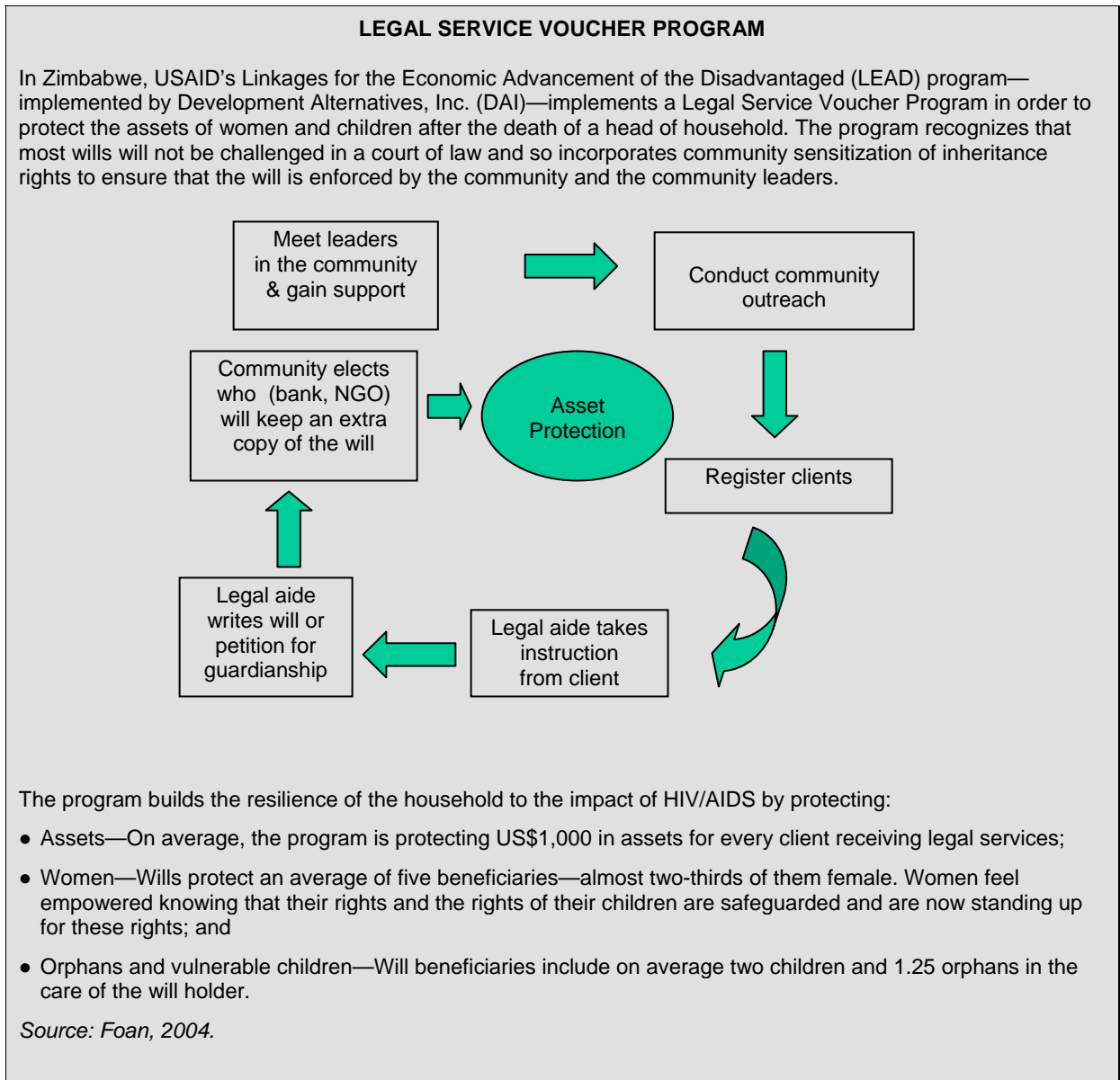
*Source: Leftley, 2002.*

Another microinsurance option was used by Afgri, a leading South African agribusiness services firm, which developed a funeral insurance policy for its farmer customers who had been paying for funerals out of pocket. This product not only allows Afgri to provide its customers with another service, but it mitigates the financial impact of AIDS on the MSEs and ensures that the agribusiness firm will retain its customer base.

#### **6.1.2 STRATEGY: ASSET PROTECTION VIA LEGAL SERVICES**

The second cause of asset loss from HIV/AIDS is from the redistribution of household assets after the death of a household member—asset grabbing. In many high-prevalence areas, after a death, household assets are distributed according to traditional cultural practices, which often means that assets are distributed outside of the immediate household to the extended family. In Namibia, when a male head of household dies, 52 percent of households also lose cattle, 30 percent lose small

livestock, and 39 percent lose farm equipment.<sup>38</sup> A study of the impact of AIDS on land use in Lesotho, Kenya, and KwaZulu-Natal in South Africa found that even when women’s inheritance rights were protected by law, they frequently lost assets that were taken by extended family members after the spouse’s death. The stigma of AIDS often had a negative impact on inheritance; family members blamed those surviving for infecting the one who passed. In cultures where women are not seen as owning land independently of their husbands, they are likely to be completely dispossessed.<sup>39</sup>



In order to reduce the likelihood of asset grabbing, legal rights programs have been established—often at the instigation or with the direct support of community leaders—to protect land and other

<sup>38</sup> Ekaas, 2003.

<sup>39</sup> Drimie, 2002.

assets for surviving spouses. These programs provide legal services that directly protect household assets, alleviating some of the financial pressure on the household. In addition, they reduce the risk of failure by MSEs and improve the likelihood of the MSEs providing consistent quantity and quality of products or services (see box). Vouchers can be used either as tools for market development (to stimulate demand for a service by creating solvable demand, leading to continued supply and demand), or as a subsidy that provides access to once-off services that avert a crisis and permit the MSEs' continued operation. The box above presents an example in which vouchers allowed individual enterprises to access services in a moment of need, but also stimulated the development of a supply of appropriately designed and priced services from lawyers, creating a market for the those services after the vouchers were no longer available.

### 6.1.3 STRATEGY: WORKPLACE POLICIES AND PROGRAMS

A good way to establish safety nets for MSEs is to design workplace policies and programs to mitigate the impact of AIDS on the businesses. Workplace policies and programs directly reduce the labor and human capital constraints of AIDS-affected MSEs by improving the health of employees and labor planning for the business. The result is lower indirect costs to the enterprise, along with increased consistency in quality and quantity of product. By reducing the impact of AIDS, these programs also reduce the risk of failure to deliver on a contract and thus reduce the risks and the transaction costs of working with MSEs. As noted, MSEs have scarce resources to spend on these programs and there are few MSE-friendly products, but there are some useful examples of successful programs in this area.

#### IESC: BizAIDS ZAMBIA

The IESC BizAIDS program, which receives multisectoral funding from USAID/Zambia, leverages the business, health, and legal resources in a community to help protect the health of MSEs as well as the health of employees in high-risk AIDS environments. Based on risk assessment and business planning appropriate to very small business, BizAIDS looks at assets, job skills, employees, succession planning, impact on families, and the resources MSEs provide to their communities.

BizAIDS works mostly with MSEs with fewer than 10 employees on business crisis planning and management, basic business skills training, basic health education, and legal rights and responsibilities information. The program is designed to work in a sustainable manner with business service organizations that can be trained in the straightforward process of business assessment combined with community HIV/AIDS and legal resource coordination for MSEs. IESC provides training of local trainers in the BizAIDS methodology, workshops for introduction of information and materials, and one-on-one technical assistance to address specific MSE issues and incorporation of information and practices into businesses.

Used across Zambia, BizAIDS has demonstrated its relevance in rural, peri-urban, and urban areas. Workbooks are available in local languages, developed to be used by local trainers, and can be self-administered if a trainer is not on site. As a result of the program, Zambia's small businesses are better prepared to manage the challenges caused by HIV/AIDS, thus protecting business income, client-base, and assets, in addition to employee income, family stability, and community health.

*Source: Interview with M.K. Cope, IESC, January 2005.*

Comprehensive workplace policies and programs include business planning as well as increasing access to AIDS services. The International Executive Service Corps (IESC) BizAIDS project (see box) takes small businesses through a risk management workbook that allows MSEs to understand how AIDS might affect their business and to put in place HIV/AIDS mitigation strategies well in advance of the problem. Advance planning allows firms to ensure that they are well prepared for the crisis if and when it comes, which greatly increases their chance of survival. As these planning

services are delivered by local business support organizations, they are being integrated into the local fabric of business support. While such programs are not fully commercially viable, their subsidized provision may be justifiable as a public good. Particularly when societal costs will be minimized only through a preventative approach, some public funding may be required to foster the proactive role required of businesses not yet directly affected by the crisis.

Access to AIDS services is the cornerstone of mitigating the impact of HIV/AIDS on employees and thus on the MSE. AIDS-affected employees often have little or no access to prevention, treatment, and care for themselves or for HIV-positive family members. Lack of treatment and care mean that once a person becomes sick, his or her health rapidly declines and productivity goes into a downward spiral. To provide access to AIDS services for the smaller MSEs, creative partnerships are required with a range of healthcare providers, including AIDS service organizations, private sector or faith-based clinics and pharmacies, government programs, or lead firms with established programs.

A complete program of services includes education and awareness-building programs, peer counseling, condom distribution, voluntary counseling and testing (VCT) access, positive living, treatment, and care. Programs also provide a starting point for the fight against stigma in the workplace, which often keeps employees from discovering their status, a necessary precursor to counseling and treatment. The challenges for small businesses are identifying the key elements for their workplace programs and pulling them together into a reasonable program that is both appropriate and affordable for the size of firm. ECIAfrica's Tourism Enterprise Program (TEP) (see box) is building and testing such a package for small enterprises in South Africa, where health and AIDS services are more accessible than in many other developing countries, providing additional potential for MSE workplace programs that directly impact MSE outcomes.

#### **TOURISM ENTERPRISE PROGRAM**

The Tourism Enterprise Program in South Africa is building the capacity of MSEs in the tourism sector to address HIV/AIDS in their workplaces. The program addresses both supply and demand constraints. On the supply side, though South Africa probably has the greatest selection of AIDS programs in the world, these are tailored for large companies, not for small enterprises. Different products are required, in different languages and with lower prices, for MSEs, and the project assists the service providers to adapt their offerings to fit the needs of this new range of clients.

To stimulate demand for these services, the program starts with an introductory workshop for MSE owners to discuss the impact of HIV/AIDS on MSEs. At the end of the workshop, MSE owners are given the option of participating in a workplace policy design program. The workplace policy that is developed with the assistance of TEP AIDS Linkage Coordinators includes a plan to connect the MSE and its employees to the HIV/AIDS prevention, treatment, and care services that the MSE considers most important. These services are provided by existing AIDS service organizations, private sector providers, and government clinics that are already active on the ground. Partners in the program include private health clinics, government clinics, and nongovernmental organizations (NGOs) that provide a range of services including HIV/AIDS prevention, condom distribution, VCT, treatment, and community outreach.

*Source: ECIAfrica, 2004.*

#### **6.1.4 STRATEGY: LABOR-SAVING TECHNOLOGIES AND PRODUCTION INPUTS**

One of the main problems facing HIV/AIDS-affected households is the reduced time spent on business, not just in production but also on input purchase, marketing, and other core business functions. This is the result of several forces: lack of energy due to illness, increased isolation to care for the sick or orphaned, absenteeism for funerals, and so on. Identifying labor-saving opportunities

can overcome the labor constraint and even increase production. In addition, distribution of inputs provides an opportunity for bundling services including technical training and information.

Labor-saving strategies have already become the centerpiece of locally driven efforts in Uganda, which has two decades of experience in responding to AIDS.

*Based on field visits with families and institutions serving AIDS-affected households (in Southwest Uganda), these households appear to be actively organizing, seeking external assistance, and searching for market opportunities that are within their ability to participate. Uptake of livestock zero-grazing, mushroom rearing, bee-keeping, and vegetable gardening (activities that require little physical mobility) has been consistently on the rise, as noted by a range of NGOs targeting this population.<sup>40</sup>*

Clearly, some value chains are particularly suited to labor-saving technologies. Agriculture offers one such opportunity: labor savings can be designed into input procurement, marketing, or production—such as drip irrigation systems, which reduce water requirements and watering time. Certain cropping methods reduce weeding or pesticide requirements, and zero-grazing is a low-labor solution for livestock production in many settings. The LEAD program distributed low-labor drip irrigation technology that allowed AIDS affected households to participate while benefiting all participants through higher yields and better quality production. Though done initially as a grant to the households, these drip irrigation kits are relatively inexpensive and can serve as the basis for a commercially oriented activity where the sale of excess produce is sufficient to pay for the investment in the kits. However, we must recognize that these kits are often being used as a subsidy at the level of AIDS-affected households, to help pull those households that are headed for destitution into a self sustaining mode, with better nutrition and increased disposable income.

#### HOME NUTRITION GARDENS

USAID's LEAD program in Zimbabwe identified labor shortages as one of the key constraining factors to participation in commercial activities by AIDS-affected households. In order to overcome this labor bottleneck, the program introduced drip irrigation to its home nutrition garden program. The drip irrigation system uses half of the water of conventional bucket watering, and so requires half of the labor for watering. Drip irrigation is also better for the soil and for plants and so results in a better-quality crop and higher yields. These characteristics of the technology benefit all who use it, but by overcoming the important labor bottleneck, it allows AIDS-affected households to participate in an income-generating activity that may otherwise have been unattainable. The drip kits are distributed to households with a training package that provides farmers with information on production, marketing, and maintaining and using the technology.

Given the current difficult situation with commercial agriculture in Zimbabwe and the skyrocketing interest rates, the program has not been able to commercialize the product. With interest rates estimated at 700 percent, borrowing is not cost-effective. However, drip kits lend themselves well to commercialization. The farmers grow two crop cycles of vegetables and one cash crop cycle each year (compared with two crop cycles without the irrigation system). Program monitoring shows that households consume half of the produce and sell half for a profit of approximately US\$20 per cycle. In this way, a farmer would be able to repay the cost of the drip irrigation system in one year of production. A microfinance package could be developed to facilitate the initial purchase, with the kit as collateral in the event of default.

*Source: DAI, 2004.*

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<sup>40</sup> Parker, 2003.

In developing such programs, particularly those in which labor-saving devices are provided free of charge, care must be taken to avoid creating a dependence on technologies will not be supported one project activities are completed. It is generally better to sell and service technical inputs through local dealers. Such a commercial orientation will help ensure that outreach, adaptation, and innovation become permanent features of the market.

In addition, there are other inputs that may be more difficult to access by HIV/AIDS-affected MSEs because of the constraints discussed in Chapter 5. Access to these inputs can better be achieved through vertical integration or inter-firm cooperation, discussed in the sections below.

## 6.2 APPROACH: VERTICAL LINKAGES

Lead firms that subcontract with MSEs want to ensure that their subcontractors are able to provide them with consistent quantity and quality that meet their specifications. In order to achieve this, the lead firms may provide their suppliers with services such as extension, access to credit, and market information. This is an example of a backward linkage. In other situations, input providers may opt to provide their clients with services in order to guarantee their patronage either through contracts or through consumer loyalty. This is an example of a forward linkage. In both of these cases, there is a commercial foundation for the provision of services, which is essential for any sustainable service provision. Dunavant Enterprises has established this type of relationship with its cotton producers (see box).

### DUNAVANT ENTERPRISES, INC.

Dunavant is a privately owned company and one of the largest cotton merchandisers in the world. As a mark of its commitment to the producers, Dunavant processes cotton where cotton is grown. In Zambia, Dunavant has an outgrower scheme composed of approximately 130,000 smallholder farmers under contract to produce cotton.

Dunavant provides producers with:

- Credit for agro-inputs (seeds & fertilizers);
- Opportunity to rent spraying kits;
- Technical assistance to improve quality and quantity of yields, including agronomic pest patrols; and
- Collection of the cotton (transportation is charged to the farmer).

*Sources: <http://www.dunavant.com/>; and email correspondence with Isaac Ntambo, International Development Enterprises, July 22, 2004.*

These services, which reduce the risk of doing business with MSEs, are often provided at no or low monetary cost to MSEs and often feature low transaction costs because they are generally provided to MSEs that are already joined in some way (through a common buyer or common input supplier). Once the relationship is established and the contract is negotiated, trust is built between the two parties, which reduces future transaction costs still further.

One potential area for concern is the risk of dependency. MSEs that receive these low-cost or free embedded services may become dependent on the supplier of the services and unable to operate independently. This is particularly true for MSEs that are already vulnerable because of HIV/AIDS.

HIV/AIDS introduces additional challenges to this already complex relationship. Large firms may be apprehensive about working with AIDS-affected MSEs. These firms will best be able to provide appropriate services when they are informed about the realities of HIV/AIDS. The initial steps to

establishing a linkage between a lead firm and AIDS-affected MSEs may require the participation of a committed third party, which works outside of the commercial relationship to assist the lead firm in understanding the impact of AIDS on the MSEs, to determine low-cost methods of mitigating the impact and to work with MSEs to build their capacity to meet their contractual commitments. This mentor and technical assistance role may be undertaken by a development organization already working in the communities involved. The LEAD program in Zimbabwe provides an example of a buyer that worked with AIDS-affected households to purchase honey and provide them with

#### THE FORESTRY COMPANY

One objective of the LEAD program was to increase the income of HIV/AIDS-affected households by supporting honey production and marketing. Honey is an ideal product for AIDS-affected households because of its overall low labor input and its relatively high return per labor input. At the time the project was started, honey production had a labor return of US\$3.05 per hour, compared with US\$0.44 per hour for a farm laborer on minimum wage.

The Forestry Company, a private firm that produces, purchases, and processes honey, set up collection points to purchase honey from its regular suppliers. This allowed the firm to buy honey from producers in a given area without having to visit each producer to collect it. In order to ensure a consistent supply, the buyer also committed to providing the honey producers with training in hive management and bee-keeping, as well as information on the different grades that it purchases.

*Source: DAI, 2002.*

information on production (see box).

### 6.3 APPROACH: INTER-FIRM COOPERATION

Many of the constraints to MSE participation in value chains arise from the businesses' small size and the high transaction costs associated with working with many of them in order to obtain a sufficient quantity of product. At the same time, MSEs face higher costs for inputs and accessing information because they are purchasing in small amounts. So from both the MSE perspective and the perspective of others in the value chain, it would be of benefit for MSEs to come together to increase their buying power for inputs and information as well as their ability to sell in larger quantities. Such agglomeration can be achieved in a multitude of ways, including forming producer cooperatives or producer associations, organizing input purchases, and organizing collection points, often with grading and sorting functions built in.

Organizing small enterprises into well-functioning producer associations allows them to break down barriers of scope and scale, and leads large firms to respond more favorably to the opportunity to buy from small-scale producers.<sup>41</sup> By forming producer groups, small-scale producers can reduce the transaction costs associated with working with many small firms, increase the likelihood of a sufficient and dependable supply of quality products, and increase efficiency by leveraging their relative size to access information and reducing the cost of doing business through collective purchase of inputs and supplies. Organized producer associations also benefit the MSE participants by reducing individual transaction costs of finding and negotiating market opportunities and by leveraging their combined purchasing power to invest in technology to upgrade their process or product. The Cooperative League of the United States of America's (CLUSA) program in Zimbabwe and Mozambique provides a good example of a successful producer association program (see box).

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<sup>41</sup> Brenneman, 2000.

Producers do not need to be in formalized producer associations to gain these benefits. Informal groups of producers can organize themselves to collectively purchase inputs, thus reducing the cost. Another option is for an intermediary buyer such as a broker or a lead firm to organize collection of an MSE product at a given point on a given day, thus informally linking the MSEs and reducing their transaction costs.

While these interventions benefit all MSEs, they are particularly relevant for those that are AIDS-affected, given their particular constraints that result in difficulty meeting quantity goals, getting market information, and coordinating with buyers. Joining with other MSEs allows AIDS-affected MSEs to overcome some of the temporary lapses in production without losing access to the buyer. Collaboration among MSEs also allows for the sharing of skills, knowledge, and information among members, and firms that purchase from producer associations may provide technical assistance through extension services to improve production quality and quantity. Producer associations also provide an excellent platform through which to deliver nontargeted AIDS programs, including prevention information and services, and for reducing stigma associated with the disease.

#### CLUSA

CLUSA operates outgrower programs in Mozambique and Zimbabwe. Its strategy is to do a market assessment to identify potential lead firms and markets for agricultural products to ensure that the intervention is market-driven and not supply-driven. The information is presented to smallholder farmers who form rural group businesses (RGBs) with 10–15 members. Ten to 15 RGBs form depots, which become collection points facilitating access for commercial buyers. These depots can lead to increased sales prices for the farmers.

CLUSA encourages RGBs to grow two crops: one cash and one food crop to support food security and also encourage risk-averse populations to move into the market economy. CLUSA provides capacity building in the formation of accountable and transparent producer associations, assists in contract negotiations, and provides technical assistance in production to improve quality and yields. CLUSA works with local input suppliers to introduce commercially available farming technology that reduces irrigation requirements and does not require plowing.

*Source: Interview with Alex Serrano, Senior Manager, International Programs, CLUSA, July 21, 2004.*

Finally, AIDS-affected MSEs face special challenges not just in maintaining quantity and quality of production, but also in *upgrading* processes or products to meet evolving market demands—a process that always involves risk. HIV/AIDS-affected MSEs are extremely risk-averse; they have more to lose if an investment does not provide a return. These MSEs may need to see successes and receive mentoring to be willing and able to take the risks that upgrading requires. Membership in producer groups provides them with such support and distributes the risk among the members.

Organizing producers into groups does not automatically address all HIV-specific issues. In fact, producer groups that are composed of both AIDS-affected and non-affected producers can encounter the problem of free riders, where the non-affected must make up for the relative weakness of their affected peers. This problem can be overcome if individual benefits are based on the level of individual production, or if benefits are distributed irregularly.

In the CLUSA program, there have been cases of members of producer groups supporting members that cannot meet their production targets due to AIDS. In some instances, AIDS-affected individuals band together to support one another in times of peak economic activity, to make sure they are able to complete critical tasks such as planting or harvesting.



## 6.4 SUMMARY

The matrix in Table 5 reviews the constraints to participation of HIV/AIDS-affected MSEs in productive markets that were presented in Chapter 5, including the incremental effect of HIV/AIDS on the MSE constraint. The table then links each constraint with appropriate strategies and approaches discussed in this chapter.

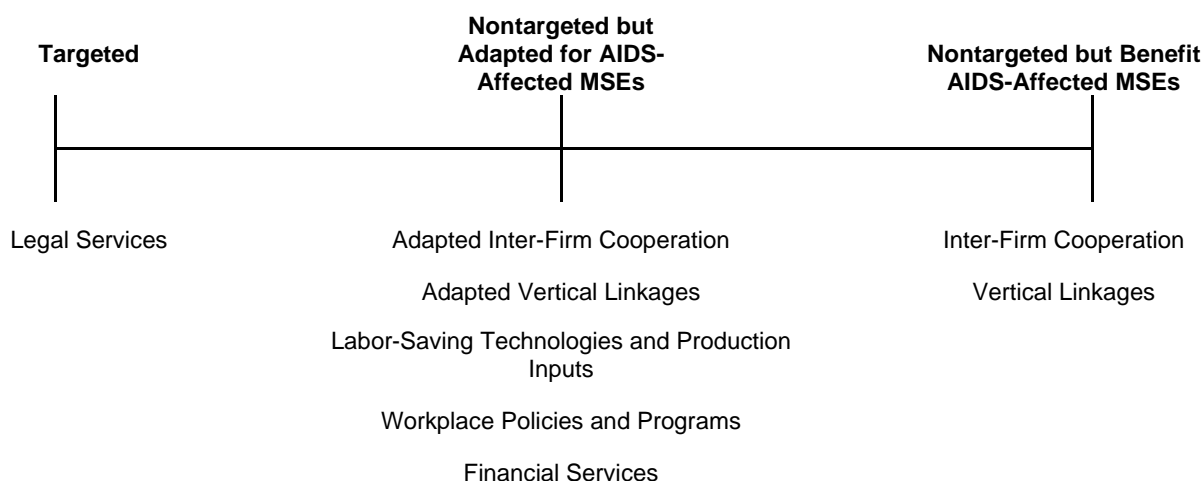
**TABLE 5: MATRIX OF CONSTRAINTS, IMPACT, STRATEGIES, AND INTERVENTIONS**

MSE-Level Constraints	HIV/AIDS Impact	Approaches
<p><b>Resource constraints</b></p> <p>MSEs often lack the resources to meet the quantity and quality requirements of the market and the ability to adapt to changing requirements.</p>	<ul style="list-style-type: none"> <li>• HIV/AIDS affects the availability of labor because of illness, death, and diverted labor to caring activities.</li> <li>• HIV/AIDS reduces financial and productive assets through reduced income and increased costs for healthcare and funerals.</li> <li>• MSEs have reduced skills and knowledge from loss of employees; households lose intergenerational transfer of skills and schooling.</li> <li>• Households adjust by using coping strategies (see Table 3) that further reduce resources.</li> <li>• Small firms have decreased productivity because of absenteeism and illness, reduced human capital, and increased costs for training and hiring.</li> </ul>	<ul style="list-style-type: none"> <li>• Asset protection—financial services: access to alternative financial resources on an emergency basis.</li> <li>• Asset protection—legal services: maintain household or MSE level of assets throughout the crisis.</li> <li>• Workplace policies and programs: include human resource planning and prevention information and means, and treatment where possible, which reduce labor and human capital constraints.</li> <li>• Labor-saving technologies and production inputs: increase labor productivity; increase yields/income; bundled training can increase skills and knowledge.</li> <li>• Inter-firm cooperation: leverage human capital; share skills and knowledge among members; reduce input and information costs.</li> <li>• Linking lead firms to MSEs: transfer human capital and market information; increase access to finance.</li> </ul>
<p><b>Transaction costs</b></p> <p>Firms working with MSEs have higher costs because of increased time to ensure standards are met, higher costs from negotiating with many individual MSEs, and increased costs for collection of product from dispersed collection points.</p>	<ul style="list-style-type: none"> <li>• AIDS-affected MSEs have greater difficulty meeting quantity and quality requirements, which means more time to ensure standards are met and higher transaction costs because of lower quantity per producer.</li> <li>• Transaction costs for AIDS-affected MSEs are also high as MSE workers responsible for market information and linkages become increasingly isolated from business contacts.</li> </ul>	<ul style="list-style-type: none"> <li>• Anything that reduces the threats to MSEs caused by HIV/AIDS will reduce their transaction costs and lead to enhanced competitiveness of those MSEs within their industries. This includes financial services, legal services, and workplace policies and programs. Labor-saving technologies and production inputs: increase yield to increase quantity per producer</li> <li>• Inter-firm cooperation: concentrate negotiation and collection of product; spread the cost of finding market opportunities across all members.</li> <li>• Linking with lead firms: relationship and contract both build trust and reduce transaction costs.</li> </ul>
<p><b>Risk for MSEs and Large Firms</b></p> <p>Risk arises from many areas, including lack of control of terms and conditions of purchase, standard</p>	<ul style="list-style-type: none"> <li>• AIDS puts pressure on producers to side-sell to get cash during a health emergency.</li> <li>• If a relationship is lost</li> </ul>	<ul style="list-style-type: none"> <li>• Anything that reduces the possibility of MSE failure reduces risk not only to the MSEs, but also to their business partners. This includes financial services, legal services, and production input provision.</li> </ul>

MSE-Level Constraints	HIV/AIDS Impact	Approaches
requirements, and control of quantity and quality delivered.	because of an AIDS death, the buyer may no longer trust the MSE. <ul style="list-style-type: none"> <li>AIDS-affected MSEs may not be able to meet a contract due to financial pressure, high turnover, or loss of skills.</li> <li>MSEs risk losing contracts due to stigma.</li> </ul>	<ul style="list-style-type: none"> <li>Workplace policies and programs can reduce the pressure to side-sell by reducing the likelihood of a financial crisis caused by health; reduce risk of MSE failure.</li> <li>Inter-firm cooperation: increase the likelihood of a dependable quality supply of product; reduce costs for MSEs; reduce the risk to MSEs of losing market from a drop in production; distribute the risk of upgrading among members.</li> <li>Vertical linkages: bundled services strengthen MSE through improved efficiency, which also reduces risk to lead firm.</li> </ul>
<b>Lack of Market Orientation</b> MSEs often lack market information and an understanding of market trends and conditions.	<ul style="list-style-type: none"> <li>HIV/AIDS-affected MSEs can be isolated and have reduced access to information.</li> <li>HIV/AIDS-affected MSEs can have more women, children, and elderly employees, who are less connected to markets and have fewer business contacts, less personal experience, and less access to market information.</li> </ul>	<ul style="list-style-type: none"> <li>Information on production, standards, and market requirements can be bundled with other services such as financial services and production input provision.</li> <li>Inter-firm cooperation: leverage their collective size to gain information; cost of information gathering is distributed among membership.</li> <li>Vertical linkages: lead firm provides training and market information to ensure that supply meets market demands.</li> </ul>

Some of these approaches are designed to explicitly reach HIV/AIDS-affected MSEs. Others are designed to support all MSEs but are adapted to ensure that they do not exclude HIV/AIDS-affected MSEs. Still others are only designed to provide support to all MSEs but they are particularly important for AIDS-affected MSEs because they address one of the key constraints that prevent AIDS-affected MSEs from participating in the market. In order to assist practitioners in determining the applicability of the approaches, they have been arranged along the continuum from most targeted to least targeted in Figure 5.

**FIGURE 5: TARGETING APPROACHES**



In order to maximize impact on AIDS-affected MSEs, in AIDS-affected areas, it is recommended that all programs adopt the “nontargeted but adapted” strategies and consider high-priority targeted interventions as necessary. This suggests that programs should:

- Monitor and analyze the impact of AIDS within the target populations of the project; and
- Use the “AIDS lens” in program design and implementation to adapt nontargeted activities to ensure that AIDS-affected MSEs are not excluded from participation.



## **7. CONCLUSION—SUGGESTED PRINCIPLES FOR MITIGATING THE IMPACT OF AIDS ON MSEs**

Field practice on supporting the ongoing value chain linkages of AIDS-affected MSEs remains nascent. The programs that do exist show initial results only. Can they keep AIDS-affected MSEs successfully engaged in higher-value markets as the crisis progresses?

Readers should take two lessons from the discussion above. First, HIV/AIDS exacerbates challenges already facing MSEs in value chains—introducing additional danger that MSEs must manage or fall out of their value chain or into a lower-value channel. Second, generic MSE development programs do not adequately address the constraints imposed by HIV/AIDS: the HIV/AIDS environment requires a new way of examining the risks facing MSEs and households.

This chapter presents overall guiding principles for integrating HIV/AIDS programming into MSE development activities.

### **7.1 GUIDING PRINCIPLES FOR HIV/AIDS PROGRAMMING**

What are the main “dos and don’ts” with respect to HIV/AIDS and MSE business development?

#### **WHAT SHOULD BE DONE IN MSE PROGRAMS IN HIGH-PREVALENCE HIV AREAS?**

In working with AIDS-affected MSEs, it is important to use the “AIDS lens” (see Chapter 6) in order to understand the effects of HIV/AIDS on MSEs, why they occur, and the best way to mitigate their impact. Practically, it means monitoring the constraints facing MSEs over time to identify new or worsening constraints in specific value chains, and revising programs to respond to that new reality.

Second, all efforts to reach AIDS-affected MSEs—as with any other MSEs—must be firmly based in a commercial opportunity in order to ensure sustainability of the activity. Value chain analysis provides an important analytical tool to ensure this commercial focus; it maintains a focus on returns, bottlenecks, and opportunities. In any high-prevalence HIV/AIDS environment, value chain analysis can and should be modified only slightly to capture how value chain realities change for participants dealing with chronic illness or death of an MSE owner, worker, or family member.

Third, in all cases a successful value chain outcome—even in an HIV/AIDS context—is dependent upon win-win partnerships between the MSEs and other actors in the value chain. Examples of such win-win partnerships include the honey and green bean cases presented in Chapter 6. In addition, any activity that reduces the risk of contract failure by the AIDS-affected MSE increases the enterprise’s long-term viability, while at the same time reducing the risk to other value chain actors.

Linking MSEs to HIV/AIDS information and services—more formally known as workplace programs—is another “should do” for any high-prevalence MSE program. Any gathering in a value chain—whether at an association, a collection site, a grading facility, or an input procurement site—is an opportunity to reach large numbers of MSE owners with information at a very low cost. This is particularly essential in countries where free VCT or ARTs are available.

#### **WHAT SHOULD BE AVOIDED BY MSE PROGRAMS?**

The first rule of development is “do no harm.” There are three primary ways in which MSE development programs might inadvertently cause harm to those coping with HIV/AIDS. First, enterprise development programs could put the individuals running MSEs at greater risk by increasing their vulnerability to HIV/AIDS. Consider a program to expand rural market opportunities

for women that requires rural women to leave their local communities and, in distant markets, negotiate with buyers of their product. In such a program, women with little bargaining power may find themselves in a situation where, far from home, they must compete with other women to have their product purchased by traders. This might inadvertently increase the pressure on these women to enter into transactional sex and place themselves at risk of infection. Clearly, this is not the intention of the program, but it requires proactive steps to mitigate this potential harm: inclusion of an AIDS education and prevention program for all participants in the program.

The second way in which development programs might cause harm is by further increasing the vulnerability of this population by straining their now-diminished resources beyond their capacity. An example is a program requiring scarce cash to be used for input purchase. In a non-AIDS environment, such an expectation might be reasonable. In an environment in which families have only 40 percent of their previous income, such an expectation would cause extreme hardship.

Third, the above concern needs to be balanced against the need to avoid “helping” HIV/AIDS-affected MSEs with highly subsidized services that will disappear with the termination of project funding. To avoid dependence, services should be provided through explicit or embedded market transactions whenever possible.

Fourth, MSE programs should avoid stigmatization of those coping with HIV/AIDS. Targeted programs are particularly risky if they are accessible only to those who are AIDS-affected and thus force participants to “self-identify” in order to access program benefits. There can also be harmful “reverse discrimination,” where other poor households in a community or sector are excluded from an appropriate and much-needed service. A better approach is to provide a range of services, some of which may naturally be more readily adopted by those affected by HIV/AIDS, as a way to make the program accessible to all members of the community regardless of their HIV/AIDS status or, if desired, inherently more attractive to those coping with HIV/AIDS.

#### **WHAT SHOULD BE DONE IN CERTAIN CONTEXTS**

All strategies do not work equally well in all situations. When selecting a strategy, it is necessary to consider the local context and base the strategy selection upon several local characteristics, including:

- HIV/AIDS incidence and prevalence—Strategies for an emerging epidemic should focus on prevention and disseminating information in order to prevent increases in incidence, while strategies for a mature epidemic should focus on efforts to mitigate the impact of illness and mortality (while continuing prevention efforts).
- Local market opportunities—MSE development should always be market-driven, even when trying to reach HIV/AIDS-affected populations. Markets vary by region and country and even within a country. If a market linkage is successful in one place, it should not be assumed that it will be successful elsewhere.
- Gender roles—In some areas, understanding gender roles is a key determinant to being able to mitigate the impact of HIV/AIDS on MSEs. For example, it is important to consider whether a program that primarily reaches men-owned MSEs can incorporate women who may become single heads of household in the wake of AIDS, and may then be solely responsible for the continuity of the MSE and market relationships. Gender roles vary widely among areas and should be understood in the specific area before activities are designed.
- Legal codes—Local law often determines legal rights of individuals and how benefits are distributed. It is essential to understand local law. For example, local law determines whether legal asset protection through will writing is a viable alternative or whether it is even necessary.

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## ANNEX A: BENEFITS AND RISKS OF APPROACHES

Approach	Benefits	Risks
Asset Protection via Financial Services	<ul style="list-style-type: none"> <li>• Provides access to financial resources on an emergency basis, which prevents sale of assets</li> <li>• Provides an opportunity to bundle services including information provision and technical training</li> </ul>	<ul style="list-style-type: none"> <li>• Loans can become a burden on already weakened MSEs if not managed properly, or if collateralization leads to more rapid loss of assets</li> <li>• Savings may be depleted quickly during a health crisis, requiring access to emergency loans</li> <li>• If microfinance eligibility requirements exclude those in crisis, they will be forced to exit the MFI when they most need its services</li> <li>• MFIs must protect themselves from the risks of lending to the terminally ill</li> </ul>
Asset Protection via Legal Services	<ul style="list-style-type: none"> <li>• Prevents the redistribution of assets outside the household after the death of a family member</li> <li>• Alleviates financial pressure on the household</li> </ul>	<ul style="list-style-type: none"> <li>• Household assets are often distributed according to traditional cultural practices; any program in this area must be careful to take those practices into account in program design and ensure community buy-in</li> </ul>
Workplace Policies and Programs	<ul style="list-style-type: none"> <li>• Improves health of employees; reduces indirect costs, and reduces labor and human capital constraints</li> <li>• Improves health status</li> <li>• Reduces the risk of a financial crisis and the potential for side-selling</li> </ul>	<ul style="list-style-type: none"> <li>• MSEs have scarce resources to allocate to workplace policies and programs</li> <li>• There are few MSE-friendly workplace policy and program products</li> </ul>
Labor-Saving Technologies and Production Inputs	<ul style="list-style-type: none"> <li>• Reduces time on production and improves yields, resulting in improved labor productivity and increased income</li> <li>• Provides an opportunity to bundle services including information provision and technical training</li> </ul>	<ul style="list-style-type: none"> <li>• To be sustainable, production input programs must be commercially grounded</li> </ul>
Inter-Firm Cooperation	<ul style="list-style-type: none"> <li>• Provides clear technical direction and a consistent market</li> <li>• Decreases costs of inputs</li> <li>• Improves consistency in quantity and quality, which benefits the buyer</li> <li>• Concentrates negotiation and collection of product, reducing transaction cost</li> <li>• Shares risk in upgrading investments</li> <li>• Improves access to shared information and skills through either sharing within the group or the purchase of outside services</li> </ul>	<ul style="list-style-type: none"> <li>• HIV-affected populations that cooperate through third-party services can become dependent, increasing their vulnerability</li> <li>• Non-HIV-affected MSEs may be unwilling to cooperate with HIV-affected populations or may perceive them as free riders</li> <li>• HIV-affected firms may be easily identified in groups and further stigmatized</li> </ul>
Vertical Linkages	<ul style="list-style-type: none"> <li>• Provides clear technical direction and a consistent market</li> <li>• Enables lead firms to have more control over suppliers to ensure consistency of supply and quality</li> <li>• Enables MSEs to access services in exchange for patronage or a contract</li> <li>• Provides an opportunity to bundle services including information provision and technical training</li> <li>• Increases access to financial services</li> </ul>	<ul style="list-style-type: none"> <li>• To be sustainable, vertical linkages must be commercially grounded</li> <li>• HIV-affected populations have limited ability to deal with added risk that may arise from dependency on directed vertical relationships</li> <li>• Large firms may be apprehensive about working with AIDS-affected MSEs</li> <li>• Large firms may need assistance to learn about the impact of AIDS on the MSEs and to determine low-cost methods to mitigate the impact</li> </ul>