The economic impact of HIV & AIDS on Africa

-by Parul Sharma

HIV and AIDS have already had a significant impact and caused a vast amount of human suffering in Sub-Saharan Africa, the region of the world that is most heavily affected by the AIDS pandemic. Nearly two-thirds of all HIV positive people live in this area, although it contains little more than 10% of the world's population. The existing literature on health and development contains increasing numbers of assessments of relations between health conditions of countries and their per capita GDP, but it has not assessed health as an *aspect* of economic welfare. Between 1960 and 1990 life expectancy in Africa increased by a very substantial 9 years. The impact was to add between 1.7% and 2.7% per annum to the growth rate of per capita gdp in generating a more inclusive measure of change in economic welfare. The AIDS epidemic, however, is more than reversing these gains: for Africa as a whole the AIDS-induced decline in economic welfare was about 1.7% per annum, leading to an overall growth rate of welfare of –2.6% .

In countries heavily impacted by AIDS, during 2005 alone, an estimated 4 million adults and children died as a result of AIDS in Sub-Saharan Africa. Since the beginning of the epidemic more than 15 million Africans have died from AIDS.

The Economic Impact

AIDS has marked a vital impact on the labour force, households and enterprises and has played a more significant role in the reversal of human development than any other single factor. One major aspect of this restricted development has been the damage that the epidemic has done to the economy, which, in turn, has made it more difficult for countries to respond to the crisis.

One way in which HIV and AIDS affect the economy is by reducing the labour supply through increased mortality and illness. Amongst those who are able to work, productivity is likely to decline as a result of HIV-related illness. Government income also declines, as tax revenues fall and governments are pressured to increase their spending to deal with the rising HIV prevalence.

The impact that AIDS has had on the economies of African countries is difficult to measure. The economies of the worst affected countries were already struggling with development challenges, debt and declining trade before the epidemic started to affect the continent. AIDS has combined with these factors to further aggravate the situation. It is thought that the yearly impact of AIDS on Sub Saharan Africa's gross domestic product (GDP) is -1%. While this is a relatively modest effect, it will build in significance over time, especially in countries where

HIV prevalence is rising. One way in which this impact can be reduced is through the provision of antiretroviral drugs to people living with HIV. A recent study in South Africa suggested that, if the proportion of those in need of ARVs who are receiving them increased to 50%, the effect of the epidemic on economic growth would be reduced by 17%.

AIDS has the potential to create severe economic impacts in many African countries. It is different from most other diseases because it strikes people in the most productive age groups and is essentially 100 percent fatal. The effects will vary according to the severity of the AIDS epidemic and the structure of the national economies. The two major economic effects are a reduction in the labor supply and increased costs:

Labor Supply

- The loss of young adults in their most productive years will affect overall economic output

- If AIDS is more prevalent among the economic elite, then the impact may be much larger than the absolute number of AIDS deaths indicates

Costs

- The direct costs of AIDS include expenditures for medical care, drugs, and funeral expenses

- Indirect costs include lost time due to illness, recruitment and training costs to replace workers, and care of orphans

- If costs are financed out of savings, then the reduction in investment could lead to a significant reduction in economic growth

Reduced labour supply

The HIV/AIDS pandemic has an impact on labour supply, through increased mortality and morbidity. This is compounded by loss of skills in key sectors of the labour market. In South Africa, for example, around 60% of the mining workforce is aged between 30 and 44 years; in 15 years this is predicted to fall to 10% (R Elias, University of Botswana, personal communication, 2000) (figure). In the South African healthcare sector 20% of student nurses are HIV positive.

Reduced labour productivity

The long period of illness associated with AIDS reduces labour productivity. One review reported that the annual costs associated with sickness and reduced productivity as a result of HIV/AIDS ranged from $17 (£12; €19) per employee in a Kenyan car manufacturing firm to $300 in the Ugandan Railway Corporation. These costs reduce competitiveness and profits. Government incomes also decline, as tax revenues fall, and governments are pressured to increase their spending, to deal with the rising prevalence of AIDS, thereby creating the potential for fiscal crises.

Reduced exports and increased imports
Lower domestic productivity reduces exports, while imports of expensive healthcare goods may increase. The decline in export earnings will be severe if strategic sectors of the economy are affected, such as mining in South Africa. Consequently the balance of payments (between export earnings and import expenditure) will come under pressure at the same time that government budgets come under pressure. This could cause defaults on debt repayments and require economic assistance from the international community.

Measures that could be applied:

AIDS has the potential to cause severe deterioration in the economic conditions of many countries. However, this is not inevitable. There is much that can be done now to keep the epidemic from getting worse and to mitigate the negative effects. Among the responses that are necessary are:

- **Prevent new infections.**

An effective national response should include information, education and communications; voluntary counseling and testing; condom promotion and availability; expanded and improved services to prevent and treat sexually transmitted diseases; and efforts to protect human rights and reduce stigma and discrimination. Governments, NGOs and the commercial sector, working together in a multi-sectoral effort can make a difference. Workplace-based programs can prevent new infections among experienced workers.

- **Design major development projects appropriately.**

Some major development activities may inadvertently facilitate the spread of HIV. Major construction projects often require large numbers of male workers to live apart from their families for extended periods of time, leading to increased opportunities for commercial sex. A World Bank-funded pipeline construction project in Cameroon was redesigned to avoid this problem by creating special villages where workers could live with their families. Special prevention programs can be put in place from the very beginning in projects such as mines or new ports where commercial sex might be expected to flourish.

- **Mitigate the effects of AIDS on poverty.**

The impacts of AIDS on households can be reduced to some extent by publicly funded programs to address the most severe problems. Such programs have included home care for people with HIV/AIDS, support for the basic needs of the households coping with AIDS, foster care for AIDS orphans, food programs for children and support for educational expenses.

A strong political commitment to the fight against AIDS is crucial. Perhaps the most important role for the government in the fight against AIDS is to ensure an open and supportive environment for effective programs. Governments need to makeAIDS a national priority, not a problem to be avoided. By stimulating and supporting a broad multi-sectoral approach that includes all segments of society, governments can create the conditions in which prevention, care and mitigation programs can succeed and protect the country's future development prospects.

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