

Strengthening the role of AIDS-affected MSEs in productive markets

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With 39.4 million people HIV-positive or living with AIDS around the world, AIDS is having a huge economic impact on households, businesses and national economies. This article examines the effects that the illness has on large firms, micro and small enterprises (MSEs) and on households. MSEs already face constraints to market access, and the difficulties of sustaining MSEs affected by HIV/AIDS in supply chains is discussed, using the case of the Kenyan green beans sector as an example. The article describes promising approaches to addressing these constraints and mitigating the impact of HIV/AIDS on MSEs, such as asset protection via financial and legal services, workplace programmes and horizontal linkages through producer associations.

SOME 67.4 MILLION PEOPLE are HIV-positive, have AIDS, or have already died from AIDS (Leather, 2004). These figures, though, 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, compounding the impact of this epidemic. Most of those dying from AIDS are in their economic prime, aged 25 to 45. In high-prevalence countries, the loss of the productive generation is forcing greater economic responsibilities on to the very young and the very old.

AIDS is often considered an African problem, which is not surprising given that Sub-Saharan Africa is home to two-thirds of the world's HIV-positive population. One in five adults in the region is HIV-positive, and prevalence is still rising in most countries. However, since 2003, the world is increasingly aware that the AIDS pandemic extends far beyond Africa.

Eastern Europe is facing a growing epidemic: 1.3 million were infected by the end of 2003, primarily driven by young people's injection drug use and other risky behaviour. 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 the newly infected – is skyrocketing. India and China have estimated prevalence rates of 1.3 per cent and 0.1 per cent, respectively – low by African standards – but India already had 5.1 million people living with HIV in 2003 (UNAIDS/WHO, 2004), 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 per cent in 12 countries in the region and is increasing in the general population in several countries (Woods, 2004).

In Asia, the epidemic is rapidly spreading to new countries that until recently had little or no HIV

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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. With up to 80 per cent 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. The Food and Agriculture Organization (FAO) estimates that nine countries in southern Africa will lose between 13 and 26 per cent of their agricultural labour force between 1985 and 2020; most of these are ‘microentrepreneurs’ or household-based producers (FAO, 2004).

The additional labour and capital constraints resulting from HIV/AIDS not only result in reduced output, but also lead to shifts in crop choices and production methods. Overall, death of a male head of household tends to result in a shift to lower-labour, lower-risk, and traditionally female subsistence crops, which generally means a shift out of the commercial market. In Zimbabwe, adult incapacitation and death from HIV/AIDS resulted in household harvest declines of 54 per cent for maize, 52 per cent for cotton, and 51 per cent for sunflower (Kwaramba, 1998). The reduced output of these commercial crops demonstrates the impact of AIDS on MSEs engaged in productive markets in the agricultural sector.

The economic impact of AIDS on the individual is also passed up the value chain. A study of labour 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 (Fox, et al., 2003). Commercial output suffers accordingly.

Impact on firms

HIV/AIDS affects businesses that employ outside labour differently than it does households. 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. The matrix in Table 1 illustrates the cost of AIDS to employers.

Table 1. Cost of AIDS to employers

| | <i>Direct costs</i> | <i>Indirect costs</i> |
|--|---|---|
| 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.

Death of a male head
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Direct costs related to HIV/AIDS are usually greater for more formal enterprises

Where formality entails compliance with labour laws, HIV/AIDS can compel small firms to remain in the informal sector

Firms of different sizes – micro, small, medium, or large – have different cost structures with regard to their HIV/AIDS response. Direct and indirect costs will vary based not only on the severity of the disease in the employee population, but also on the firm’s size and level of formality, the benefits it provides to employees, and their skill levels. Although indirect costs are difficult to measure, direct costs are easier to quantify and to observe, and become an increasing concern as enterprises become more formal. Research shows 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 staff will incur higher costs for retraining than those that do not train staff. For smaller businesses with less-skilled staff, the firm-level response is often to let the individual ‘disappear’ and then replace him or her with another low-skilled individual.

The indirect costs cited in Table 1, however, exist for all firms, from micro to large, and have been quantified in recent studies. In one sugar mill in South Africa, 26 per cent 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 uninfected employees (Morris et al., 2001; and Forsythe, 2002). The 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 per cent of respondents felt AIDS was affecting their business through absenteeism, increased recruitment and training costs, loss of clients, or increased medical insurance costs.

Because microenterprises generally do not pay for certain AIDS-induced direct costs, as larger firms do, the cost associated with formalizing firms is exacerbated by AIDS. In environments where formality entails compliance with labour laws, HIV/AIDS can compel small firms with growth potential to remain in the informal sector rather than participate in more lucrative value chains in formal markets.

The larger the firm, the greater its ability to respond to HIV/AIDS because of the greater financial and staff resources it can bring to bear. For smaller firms, however, the new challenges tend to be ignored because management lacks the time or understanding to address the problem. Smaller firms find it difficult to develop and implement an effective programme, which consists of : (1) preventing the spread of HIV/AIDS; (2) mitigating the adverse impact on staff members infected or affected; and (3) creating a working environment at ease with the disease. MSEs have scarce resources, usually do not know what to offer, and lack access to ‘MSE-friendly’ HIV/AIDS educational products.

Impact of HIV/AIDS on households

Individuals and their households are at the centre of the epidemic, so understanding how HIV/AIDS affects households provides critical insight into how to mitigate its impacts.

As HIV progresses to AIDS, individuals gradually withdraw from self-employment, agriculture or formal sector employment, initially due to illness and ultimately because of death. Other household members may also withdraw labour to care for the sick. Both trends affect the household’s ability to participate in the cash economy and significantly reduce household income, while medical and funeral costs rise precipitously. A study in Côte d’Ivoire found that during the illness, affected households saw a 60 per cent reduction in income and a 400 per cent increase in medical expenses (UNAIDS, 2000).

Table 2. Economic coping strategies of households

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

Source: Chen and Dunn, 1996.

Antiretroviral therapy should not be seen as a panacea

Until recently, an HIV-positive diagnosis was tantamount to a death sentence in Africa. With the increasing availability of antiretroviral therapy (ART), however, HIV-positive people are able to live long and productive lives. But ART is not universally available and should not be seen as a panacea. Initial ART distribution has focused primarily on urban areas, which are easier to access, have a higher population base per health centre (and therefore cheaper per patient to distribute ART) and generally have stronger health infrastructures. Not all countries that have high prevalence rates are receiving international support. As a result, many affected populations still lack access to ART and those that have access are uncertain of the long-term sustainability of ART because funding comes from international aid and is only committed for the next three to five years.

In addition, in countries where treatment is reaching a large proportion of HIV-infected individuals, new problems are emerging. People are starting to view HIV as a treatable disease, so they continue to engage in risky behaviour. The likely result is increasing incidence rates, lower death rates, and therefore higher prevalence rates, with greater risk of transmission to the general population.

Notwithstanding the advent of ART, this paper starts from the assumption that in most developing countries there are not adequate resources to provide sustainable ART to the affected population.

Women's labour and, therefore, women's activities are particularly taxed in AIDS-affected households because they serve as primary caregivers of the sick or orphaned. AIDS increases 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.

Table 2 presents various coping strategies households adopt during an economic crisis. These depend on initial household economic status: the poorer the household, the more likely it may be to be forced into less reversible strategies that further weaken its future economic options. For example, a recent FAO study showed that AIDS-affected households use

Table 3. 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 et al., 2001.

AIDS is usually a drawn-out illness and it often affects more than one household member

fewer agricultural inputs, have less crop diversity and cultivate less land (FAO, undated).

The financial pressure on – and economic deterioration of – affected households increases dramatically in the six months before death. During this period, the HIV-positive individual requires greater care, and at the time of death the household must bear the funeral costs. These financial pressures are specific (although not exclusive) 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 adverse cycle of increasingly irreversible coping strategies described in Table 2, and progressively less able to participate in commercial activities.

The range of pre-crisis coping strategies presented in Table 3 indicates the constructive role of business activity and income generation in the pre-crisis stage. Coping strategies relied on during the crisis (Table 2) illustrate the potential dangers if households have not mobilized, or have exhausted, these pre-crisis strategies.

Households that have strong safety nets in place before an HIV/AIDS crisis and can avoid irreversible coping strategies during the crisis are best able to cope with illness and death. These households are then able to maintain their participation in economically viable activities. Keeping the household productive is key to keeping MSEs operational.

Constraints to value-chain participation by AIDS-affected MSEs

Value-chain analysis illuminates MSEs' interactions in the market, helping us to specify the particular constraints and opportunities faced by AIDS-affected MSEs. Even before the appearance of HIV/AIDS, MSE participation in value chains was constrained by numerous factors. Four key constraints are exacerbated in the context of HIV/AIDS: limited resources in terms of labour, finances, skills and social capital; high transaction costs; significant risks for value-chain participants; and a lack of market information, understanding and access.

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. MSEs are challenged to meet scale and quality requirements, reducing their attractiveness as suppliers to larger firms, preventing MSEs from receiving differentiated pricing, and excluding them from higher-value markets.

HIV/AIDS further reduces households' and MSEs' labour availability, skill base, financial condition and productive assets, often in unexpected and therefore hard-to-resolve ways. Unexpected absenteeism may result

The loss of a key skill due to the death of a worker may shift an MSE out of a market niche entirely

In an HIV/AIDS environment buyers will shift away from MSEs unless steps are taken to reduce transaction costs

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; and lack of financial capital may translate into an inability to buy raw materials to produce on order. For MSEs in commercial agriculture, the HIV/AIDS impact is dramatic: heavy chores such as tilling are left undone, inputs are not purchased, and key events such as planting or harvesting are missed.

High transaction costs – the cost of doing business. Transaction costs are the non-financial costs associated with doing business. They include the costs of learning about opportunities, negotiating terms and enforcing contracts (North and Thomas, 1972). Firms working with MSEs also face higher transaction costs because of the increased time dedicated to ensuring standards are met, higher costs from negotiating with many individual MSEs, and increased costs per unit for collecting product from dispersed collection points.

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 potatoes who purchases at the farm gate. If, on average, each farm produces only 50 per cent of the potential crop due to labour and capital constraints caused by HIV/AIDS, the buyer's collection costs double, as do the number of relationships the buyer must develop and maintain. All things being equal, in an HIV/AIDS environment, buyers will shift away from MSEs unless other steps are taken to reduce transaction costs. HIV/AIDS can also increase transaction costs for MSEs 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.

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 that convince both parties that risk can be managed.

HIV/AIDS reintroduces uncertainty and change into this already delicate risk equation:

- MSEs may have no recourse but to side-sell their inventory to raise rapid cash, thereby undermining the trust relationship (Brenneman, 2000).
- AIDS may claim the life of one of the parties central to the trust-based relationship.
- There is greater risk in entering contracts where MSEs may not be certain they can deliver, particularly if the workforce turns over rapidly to include less-skilled workers or owners.
- The stigma attached to HIV/AIDS may cause loss of contracts.

Lack of market orientation. Understanding and assessing the often-distant final consumer is key to an MSE's ability to participate in a value chain and maintain a buyer for a given product or service. AIDS-affected MSEs have less contact with business associates because of the isolation due to illness or caregiving. In addition, HIV/AIDS often results in more woman-, child-, and elder-headed households, which are less connected

Households headed by women, children and elders tend to have fewer business contacts

With HIV/AIDS, small informal growers will be at serious risk of falling completely out of the green bean market

to markets and have less experience with, and access to systems of market information. This knowledge gap can progressively move MSEs out of the existing market channels.

Overview of HIV/AIDS' impact on MSEs in the Kenyan green beans subsector

The challenges facing MSEs, and how the addition of HIV/AIDS affects them in the value chain, can be demonstrated by exploring Kenya's green bean subsector. The industry has experienced great change over the past 20 years. Initially dominated by small growers and exporters who now face tremendous technical challenges, the subsector is now dominated by large exporters and has three channels producing and exporting green beans. This example analyses how HIV/AIDS is likely to affect firms in different channels of the value chain and exacerbate existing challenges facing MSEs.

Value Chain 1 – broker channel. In this value chain, all the businesses are small, most are micro. At the production stage, most small growers are household based and independent. They either sell to brokers or directly to small exporters. This channel is the weakest of the three, with the least amount of information transmitted from buyer to producer and the latter unable to keep the accurate records of chemical and pesticide application now required by Kenya's largest market, the European Union.

With HIV/AIDS, small informal growers will be at serious risk of falling completely out of the green bean market. The AIDS-induced labour constraint may cause small growers to shift out of green beans and into crops with less sensitivity to the timing of production stages, or even into subsistence production. Cash constraints might also force them out of the channel because they lack credit relations with exporters to provide them with the expensive inputs.

Moving up this value chain, the brokers and 'briefcase exporters' are also small businesses. They have links with buyers in European markets and specialized knowledge, but they may exit the market due to lack of expertise if the owner is affected by HIV/AIDS, or if the quantity of product from their small growers is greatly reduced.

Value Chain 2 – small-to-medium exporter channel. Here, 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 this value chain are becoming more formalized, with stronger and more formal relations between the various actors.

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 value chain 1. In this channel, small farmers are better informed and trained in the application and recording of pesticide and chemicals. If AIDS causes a contract grower to lose the individual who has those skills, it will lose its contract. These small firms also depend on outside labour to harvest the beans and are therefore likely to suffer from reduced and possibly more expensive labour for harvesting and weeding, which is already a constraint for small growers. Households may need extra money to meet AIDS-related emergencies and the small businesses might be forced to sell some of their equipment or land.

Exporters rely on agents who travel extensively to seek out and purchase product for them, but their very mobility may put them at risk

Larger firms are able to train standby workers to fill in during labour shortages

of HIV. HIV/AIDS can also affect employees of the exporters, reducing the labour supply of skilled sorters and packers. Increasingly stringent EU traceability and packaging standards raise the importance of having well-trained staff who know what to look for and how to pack the product to meet market needs. Although risks and costs are likely to go up, these exporters can train standby workers who fill in during labour shortages.

Value Chain 3 – integrated large producers channel. This value chain is dominated by large, integrated exporters closely tied into both markets and production through strong contractual or ownership relations. These exporters work less with small contract growers because of their small supply capabilities and uneven respect for contracts. The integrated exporters must be able to trace and control production practices. Uncertain about the specific attributes of produce from small growers, they avoid contracts with them.

Although this channel accounts for 75-80 per cent of total bean exports, it has the lowest rate of MSE participation. However, it can also be affected by HIV/AIDS because large contract growers are susceptible to labour shortages and falling productivity due to 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 by establishing health programmes, changing purchase terms, or cross-training essential workers.

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? Using an 'AIDS lens', development practitioners have examined existing microenterprise development programmes' abilities to overcome the core challenges discussed above. Additional experimentation and innovation have drawn together different programme elements to yield a more appropriate programming package.

One of the key factors in an MSE's ability to survive an HIV/AIDS crisis is having the safety net in place before the crisis strikes. Many of the strategies listed below are field-tested examples of such safety nets. As we look at the various approaches, 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 MSEs.

Services to support AIDS-affected MSEs

Asset protection via financial services. Protecting assets – particularly land, livestock, tools and other productive assets – during the AIDS crisis is key to ensuring the MSE's continued participation in commercial activities. Preventing asset sales requires access to alternative financial resources. Microfinance – both formal and informal, savings and credit – strengthens MSEs' ability to build assets and keep assets for the household and MSE. It can be used to build resilience, but only if it is in place before the MSE is affected by AIDS. For example, in Zambia, Opportunity International designed the following three microinsurance products that enable HIV/AIDS-affected individuals to continue to access credit without placing undue risk on the microfinance institution (MFI).

Alternative financial resources can help prevent asset sales

- Credit life insurance – provides life insurance for all borrowers equal to the total value of the principal, interest and fees of the full-term loan. In the event of client death, everything is 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 cost from all clients via a fee or interest.
- Critical illness insurance – 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 – clients pay a small weekly premium as part of the loan repayment and if a covered individual dies, the family receives a payout to meet funeral costs.

Asset protection via legal services. In many high-prevalence areas, after a death, household assets are distributed according to traditional cultural practices, which often means assets are distributed outside of the immediate household to the extended family.

Legal rights programmes may protect land and other assets for surviving spouses. Such programmes provide legal services that directly protect household assets, reduce the risk of failure by MSEs, and improve the likelihood of the MSEs providing consistent quantity and quality of products or services. 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.

In Zimbabwe, the Linkages for the Economic Advancement of the Disadvantaged (LEAD) programme implemented a voucher programme to protect the assets of women and children after the death of a head of household (see Figure 1). The programme recognizes that most wills will not be challenged in a court of law and so incorporates community sensitization of inheritance rights to ensure that the will is enforced by the community and its leaders. LEAD used vouchers as a tool for market

Legal rights programmes may protect land and other assets for surviving spouses

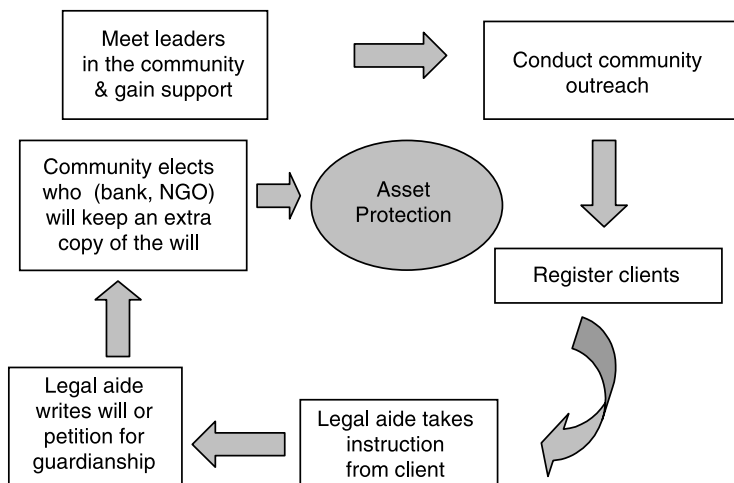


Figure 1. The LEAD Programme provides vouchers for legal services to protect household and business assets

Box 1. IESC: BizAIDS ZAMBIA

The IESC BizAIDS programme, 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 programme 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 co-ordination 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 programme, 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.

development, and a subsidy that provides access to one-off services that avert a crisis and permit the MSEs' continued operation. This case is 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 those services after the vouchers were no longer available.

Workplace policies and programmes. Workplace policies and programmes directly reduce the labour and human capital constraints of AIDS-affected MSEs by improving the health of employees. The result is lower indirect costs to the enterprise, and more consistent quality and quantity of product. By reducing the impact of AIDS, these programmes also reduce the risk of failure to deliver on a contract and thus the risks and transaction costs of working with MSEs.

Comprehensive workplace policies and programmes include business planning as well as increasing access to AIDS services. The International Executive Service Corps (IESC) BizAIDS project 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 in advance of the problem (see Box 1). As these planning services are delivered by local business support organizations, they are being integrated into the local fabric of business support.

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

For smaller MSEs to provide AIDS services, creative partnerships are required with a range of healthcare providers

declines and productivity spirals downward. To provide access to AIDS services for 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 programmes, or lead firms with established programmes. A complete programme of services includes education and awareness-building programmes, peer counselling, condom distribution, voluntary counselling and testing access, positive living, treatment and care.

ECIAfrica's Tourism Enterprise Programme 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. This programme provides MSEs with workplace programmes that directly affect MSE outcomes. It starts with an introductory workshop for MSE owners to discuss the impact of HIV/AIDS on MSEs, after which MSE owners are given the option of participating in a workplace policy design programme. The workplace policy includes a plan to connect the MSE and its employees to HIV/AIDS prevention, treatment and care services that the MSE considers most important.

Labour-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. Identifying labour-saving opportunities can overcome the labour constraint and even increase production.

Clearly, some value chains are particularly suited to labour-saving technologies (see Box 2). Agriculture offers one such opportunity, where labour savings can be designed into input procurement, marketing or production. Drip irrigation systems, for example, reduce water requirements and watering time. Certain cropping methods reduce weeding or pesticide requirements. And zero-grazing is a low-labour solution for livestock production in many settings. The LEAD programme distributed low-labour drip irrigation technology that allowed AIDS-affected households to participate while benefiting all participants through higher yields and higher-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 pays for the investment in the kits. However, these kits are often used as a subsidy for AIDS-affected households headed for destitution, to steer them into a self-sustaining mode with better nutrition and increased disposable income.

Box 2. The Forestry Company

One objective of the LEAD programme 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 low labour input and relatively high return per labour input. When the project was started, honey production had a labour return of US\$3.05 per hour, compared with US\$0.44 per hour for a farm labourer on a 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. To ensure a consistent supply, the buyer also provided the honey producers with training in hive management and bee-keeping, and information on the different grades it purchases.

Source: DAI, 2002.

Vertical linkages

Lead firms that subcontract with MSEs want to ensure their subcontractors can consistently meet their quantity and quality specifications. As such, lead firms may provide their suppliers with services such as extension, access to credit and market information – an example of a backward linkage. In other situations, input providers may opt to provide their clients with services to guarantee their patronage, either through contracts or through consumer loyalty – a forward linkage. Both cases offer the commercial foundation essential for any sustainable service provision.

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 to the value chain in some way (through a common buyer or common input supplier). Once the relationship is established and the contract negotiated, trust is built between the two parties, which reduces future transaction costs still further.

HIV/AIDS introduces additional challenges to this complex relationship. Large firms may be apprehensive about working with AIDS-affected MSEs. A committed third party, or facilitator, that works outside of the commercial relationship may 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 contractual commitments. This mentoring and technical assistance role may be undertaken by a development organization or by a private firm working in the communities involved (see Box 2).

Large firms may be apprehensive about working with AIDS-affected MSEs

Inter-firm co-operation

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 a large number of them to obtain a sufficient quantity of product. 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 favourably to the opportunity to buy from small-scale producers (Brenneman, 2000). It also reduces the individual transaction costs of finding and negotiating market opportunities and enhances MSEs' ability to leverage their combined purchasing power to invest in technology to upgrade a process or product. The Cooperative League of the United States of America (CLUSA) programme in Zimbabwe and Mozambique is a good example of a successful producer association programme (see Box 3).

Producers do not need to be in formalized producer associations to gain these benefits. Informal groups of producers can organize themselves to purchase inputs collectively, 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.

These interventions are particularly relevant to AIDS-affected MSEs. 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 sharing 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

Joining with other MSEs allows AIDS-affected MSEs to overcome some of the temporary lapses in production

Box 3. CLUSA

CLUSA operates outgrower programmes in Mozambique and Zimbabwe, taking a market-driven approach to identify potential lead firms and markets for agricultural products and then working with smallholder farmers who form rural group businesses (RGBs) of 10–15 members. The RGBs are grouped into collection points that facilitate access for commercial buyers, with the aim of increasing prices to the farmers.

CLUSA encourages RGBs to grow two crops: one cash and one food crop. CLUSA provides capacity building in the formation of accountable and transparent producer associations, assists in contract negotiations and provides technical assistance 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 ploughing.

Source: Interview with Alex Serrano, Senior Manager, International Programmes, CLUSA.

provide an excellent platform through which to deliver non-targeted AIDS programmes, including prevention information and services, and they reduce the stigma associated with the disease.

Finally, AIDS-affected MSEs face special challenges in upgrading processes or products to meet evolving market demands, a process that always involves risk. They 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 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, for example.

The CLUSA programme discussed above has seen cases of members of producer groups supporting AIDS-affected members who cannot meet their production targets. In some instances, AIDS-affected individuals support one another in times of peak economic activity to make sure they can complete critical tasks such as planting or harvesting.

To assist practitioners in determining the applicability of the approaches mentioned above, we have arranged them along a continuum from most targeted to least targeted (Figure 2).

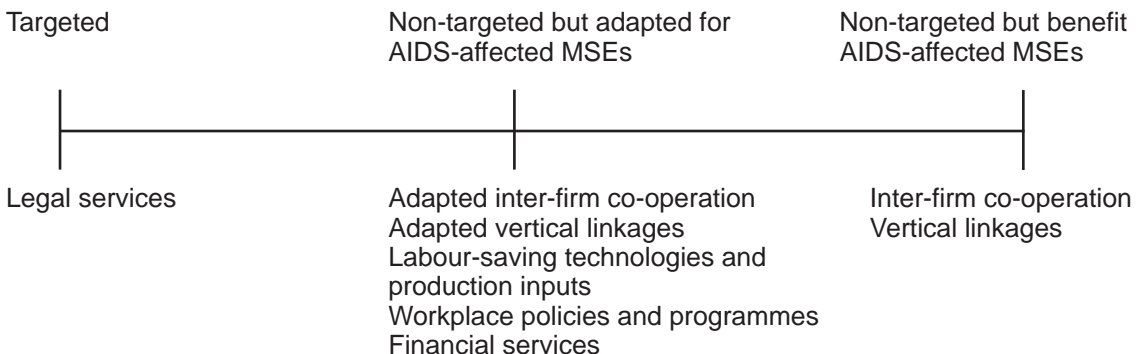


Figure 2. Targeting approaches

To maximize impact on AIDS-affected MSEs in AIDS-affected areas, it is recommended that all programmes adopt the ‘non-targeted but adapted’ strategies and consider high-priority targeted interventions as necessary. This approach suggests that programmes should:

- Monitor and analyse the impact of AIDS within the target populations of the project; and
- Use the ‘AIDS lens’ in programme design and implementation to adapt non-targeted activities to ensure AIDS-affected MSEs are not excluded from participation.

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