

INTRODUCTION & OBJECTIVES

Although the potential importance of the private sector's role in fighting HIV/AIDS is often cited, little of this capability has been realized. According to the Joint United Nations Programme on HIV/AIDS (UNAIDS) Director Peter Piot, "the business sector through its workforce, its ability to advocate at the highest levels of government, and its economic ties to both donor countries and those hardest-hit by AIDS, has the unparalleled opportunity to change the course of the epidemic." Yet, few recently published global surveys indicate the opposite:

- More often than not, firms make decisions about HIV/AIDS without "comprehensive knowledge of the risks that they face." In fact, 83% of the 7,000 plus firms surveyed have not yet developed an HIV/AIDS-specific written policy, and the 6% of respondents that have done so report that the policies are not always implemented. (WEF – 2003)
- Only 21% of the 100 largest transnational corporations reported that they have policies or programs governing HIV/AIDS in the workplace. These firms have only just begun to awaken to the risks posed by HIV/AIDS. (UNAIDS, UNRISD – Nov. 2003)
- Even employees that were already implementing awareness and education programs had not assessed the risks that AIDS posed to their business operations. (Deloitte & Touche South Africa – May 2002)

Most private companies are not aware of the multiple threats that HIV/AIDS poses to their business operations and consequently elect to do nothing. To date, neither the rationales motivating robust action by firms nor the returns on firms' investment have been well documented.

In order to assess the business case for action against AIDS in developing countries, this analysis asks and seeks to answer the following questions:

- How does AIDS affect the productivity, profits, and viability of firms outside the pharmaceutical and clinical sectors?
- What other rationales motivate private sector action?
- What are the costs associated with workplace interventions?
- What benefits do firms gain from these interventions?

Businesses should be motivated to take action against HIV/AIDS in developing countries by the need to mitigate financial, viability and reputational risk, enhance the firm's position, and to satisfy corporate and ethical responsibilities.

THE COSTS AND IMPACTS OF HIV/AIDS – SOME EXAMPLES

Financial Risk

- **Impact on Labor**
 - It is estimated that five countries, Botswana, Mozambique, Namibia, South Africa, and Zimbabwe, will lose up to a third of their workforce by 2020. (ILO - 2000)
- **Impact on Customer Base**
 - Vodacom, South Africa's largest mobile telephone network, estimates that the HIV/AIDS epidemic will cut the country's market by one third. (Financial Times – Oct. 30 2002)
- **Increased costs of doing business and reduced productivity**
 - Direct costs (employee benefits and additional recruitment and training costs associated with labor turnover). The National Railways of Zimbabwe calculated that training costs to replace skilled workers increased fivefold due to AIDS between 1991 and 2000. (IMPACT – April 1997)
 - Indirect costs (absenteeism, productivity losses, poor morale, and staff turnover). A study in western Kenya tea estates found that, in the last year of work before death, infected workers experience on average an 87% increase in absenteeism, an 18% decrease in output and are 66% more likely to be shifted to less productive work duty because they are unable to work in the fields (BU CIHD – March 2004)
 - Systemic costs (lost institutional memory, skills, and workplace cohesion)

Viability Risk

- Often, the loss of a key employee due to AIDS can prove catastrophic for Small and Medium Enterprises (SMEs). A study by the University of Port Elizabeth of 209 small businesses in South Africa identified AIDS as one of three main factors that cause nearly 80% of South African start-up SMEs to fail each year. (S. Eeden et al. – 2001)

Reputational Risk

"The biggest risk any company faces is the loss of its good name" (Economist magazine – Jan. 24 2004)

Activist demands



Multinationals Under Activist Pressure – 2002 AIDS Conference, Barcelona – © IFC Against AIDS

Investor demands

- Companies like Glaxo Smith Kline, PepsiCo, and Coca Cola have had to address shareholder concerns about how HIV/AIDS will affect company business at their annual board meetings.

THE BENEFITS OF BEING PROACTIVE

Corporate Image and License to Operate

- "Preferred employer". MSI, a cellular telephone company operating under the brand name Celtel in several African countries sees its engagement on AIDS and provision of antiretroviral treatment (ARV) in medical benefits for its employees and dependents as a way to attract talent and skilled labor. (IFC Against AIDS – 2003)
- Image. By demonstrating leadership on HIV/AIDS workplace programs, food and beverages companies (Unilever, Coca-Cola, Heineken) want to project the image of good corporate citizens in their customer base.
- License to operate & leadership. In the same way, companies in extractive industries seek to maintain good relations with civil society and host communities.

Staff Motivation

- With funding and guidance by IFC, the AIDS program of Odebrecht (a Brazilian company with construction, engineering, and mining interests in Angola) has led to company-wide mobilization in favor of action, as seen in systematic participation by employees and management in efforts to raise awareness among staff and communities.

Demonstrated Efficacy of Workplace Interventions

- An increasing body of evidence is showing the efficacy of workplace interventions and the positive return that they represent for the employees and community health, as well as the company's operational results. Volkswagen do Brazil, reported a 90% decrease in hospitalizations, a 40% reduction in the total costs of treatment and care, and that 90% of its HIV positive employees were active without symptoms due to its intervention program.

Modeled Cost-Benefit Analysis

Many company-specific or industry-specific models demonstrate the cost-effectiveness of workplace-based programs.

- For some businesses in Kenya the total losses due to cases of HIV/AIDS among employees were projected to reach as high as 20% of profits by 2005. The cost of comprehensive prevention programs (education, STD treatment, and condom distribution), on the other hand, for the same companies, were estimated to represent a cost of 2% or less of profits by 2005. (TBCA – 2000)
- The South African mining firm **Gold Fields** estimated that HIV/AIDS would cost the company US\$5 per ounce of gold produced by 2009 as a result of the provision of ARV treatment. However, the company estimated that the cost of inaction would be more than US\$10 per ounce by 2009. (WMRC Daily Analysis – Apr. 3 2003)
- In 2001, **Daimler Chrysler South Africa (DCSA)** estimated that the average present value of all new HIV infections equaled 2.1% of salary expenses in 2001, and was projected to peak to 3.7% of salary expenses in 2006. In comparison, DCSA's 2002 HIV/AIDS project budget is 0.5% of payroll. (WEF – 2002)
- Researchers from the Center for International Health at **Boston University** calculated that the "AIDS tax" – increased medical costs, decreased productivity, and other costs associated with HIV/AIDS in the work force – was as much as 5.9% of the labor costs for six companies in Botswana and South Africa. The model predicted that all six companies in the study would have earned positive returns on their investment, reducing the "AIDS tax" by as much as 40.4% if they were to have provided antiretroviral treatment at no cost to employees infected with HIV/AIDS. (BU-CIHD, 2003)

THE COSTS OF INTERVENTIONS

Costing of HIV/AIDS Workplace Program Elements

Costs in US\$ per worker per year

| Type of company | South Africa | | | | | | | | | | |
|---|----------------|---------|---------|---------|----------------|----------------|-------------------|--------------------|--------------------|--------------------|----------------|
| | Mining | Mining | Mining | Mining | Auto-maker | Auto-maker | Software/Hardware | Financial Services | Financial Services | Financial Services | Consumer goods |
| Number of employees | 44,828 | 5,300 | 48,000 | 5,000 | 3,000 | 4,500 | 1,325 | 20,000 | 13,000 | 20,000 | 5,000 |
| Program cost per employee | \$31.77 | \$48.00 | \$38.87 | \$26.52 | \$44.82 | \$44.44 | \$40.00 | \$12.40 | \$8.85 | \$8.00 | \$104.00 |
| Awareness, Prevention, Education | | | | | | | | | | | |
| KAP Studies | \$3.84 | | | | \$14.04 | | | | | | \$1.20 |
| Awareness and Policy | \$3.15 | | | | \$3.68 | \$14.79 | | | | | \$4.92 |
| Peer education | \$0.35 | \$10.08 | | | | | | | | | \$0.00 |
| VCT | \$6.00 | | | | \$7.13 | | \$7.40 | | | | \$28.08 |
| Community Outreach | \$11.87 | | | \$8.18 | \$13.50 | \$22.44 | | | | | \$28.08 |
| Monitoring and Evaluation | | | | | \$11.96 | \$3.57 | | | | | \$28.08 |
| Other | \$19.40 | \$34.00 | | | \$17.28 | | \$20.80 | | | | \$3.90 |
| Medical care/Wellness programs | \$20.23 | | | | \$24.48 | \$9.18 | | | | | |
| Peer education | \$1,880 (est.) | | | | \$2,400 (est.) | \$1,488 (est.) | \$1,260 (est.) | \$940 (est.) | | | |
| ADV care | \$58.00 | \$48.00 | \$46.00 | \$51.00 | \$54.00 | \$66.88 | \$40.00 | \$32.00 | \$8.48 | \$6.00 | \$104.00 |
| Total | | | | | | | | | | | |

Notes

1. In 2002, the company has roughly estimated a future HIV/AIDS liability of US\$3.1 million for all HIV+ employees. 2. Without intervention HIV/AIDS related costs in 2006 could reach approximately 10% of 2002 earnings. With interventions this can be reduced to 3%. 3. Estimated HIV prevalence among workforce: 30%. 4. The company currently estimates that providing HAART treatment to an employee costs an estimated US\$200 per month, and this cost is decreasing along with the price of drugs. 5. The average present value (discounted cash flow) cost of one infection was US\$31,000. HIV/AIDS-related costs from infections were estimated to rise as high as 3.7% of the company's yearly salary expenses. 6. The company expects that, with a successful treatment program, it could avert 42% of US\$10.6 million in HIV/AIDS related expenses over the ten-year life of the program. 7. The company provides coverage for up to US\$2,000 for each employee's HIV/AIDS management expenses per year. 8. The company provides coverage for up to US\$1,800 per registered family for HIV/AIDS management expenses per year. 9. Although not budgeted, the bank expects additional expenses for its December 2003 World AIDS Day campaign. 10. This budget is supplemented through donations from the Chairman's fund, from the company's foundation in South Africa, and from employee contributions to support community programs. 11. The company believes that its prevention program, excluding access to anti-retroviral drugs (ARV), will yield a positive return on investment (ROI). 12. Refers to costs of peer education program only to one factory in Uganda. 13. Simulation of the costs of implementing an AIDS workplace program to a company with 250 workers. Average costs, cited from various reports and researchers. 14. Completion of study findings, assumes 10% HIV prevalence among workforce.

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CONCLUSIONS AND NEXT STEPS

- Companies that engage proactively on HIV/AIDS are likely to improve their image and enjoy better relations with the community, witness improved workplace relations and staff motivation, and reap financially positive return from their actions.
- A comprehensive survey of the costs of HIV/AIDS workplace interventions shows that the price of action remains modest even in hard-hit countries, and presents an additional impetus for companies to engage.
- This research recommends that private sector firms acknowledge more broadly the business case for action against AIDS in favor of the development of HIV/AIDS workplace interventions.



Débêrech – Angola HIV/AIDS Campaign Awareness poster © IFC Against AIDS

- The outcomes of such programs – infections averted, morbidity avoided, additional years of productive life gained, and employees retained in the workforce make good business sense.
- Some companies simply take their decisions to engage in the fight against AIDS on the basis of affordability rather than cost effectiveness.
- Beyond the motivations of financial incentive and risk management, an increasing number of companies are motivated by a sense of corporate social responsibility towards the wider community... "because it's the right thing to do."