

HIV/AIDS and Economic Growth: Consequences and Remedies

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Overview

- The Macroeconomic Impact of HIV/AIDS: A Framework
- Non-Linear Effects
- Remedies and Pitfalls [Scaling up]
- Promoting Economic Growth: Private-Public Partnerships to Boost Public Sector Capacity.
- Concluding Observations

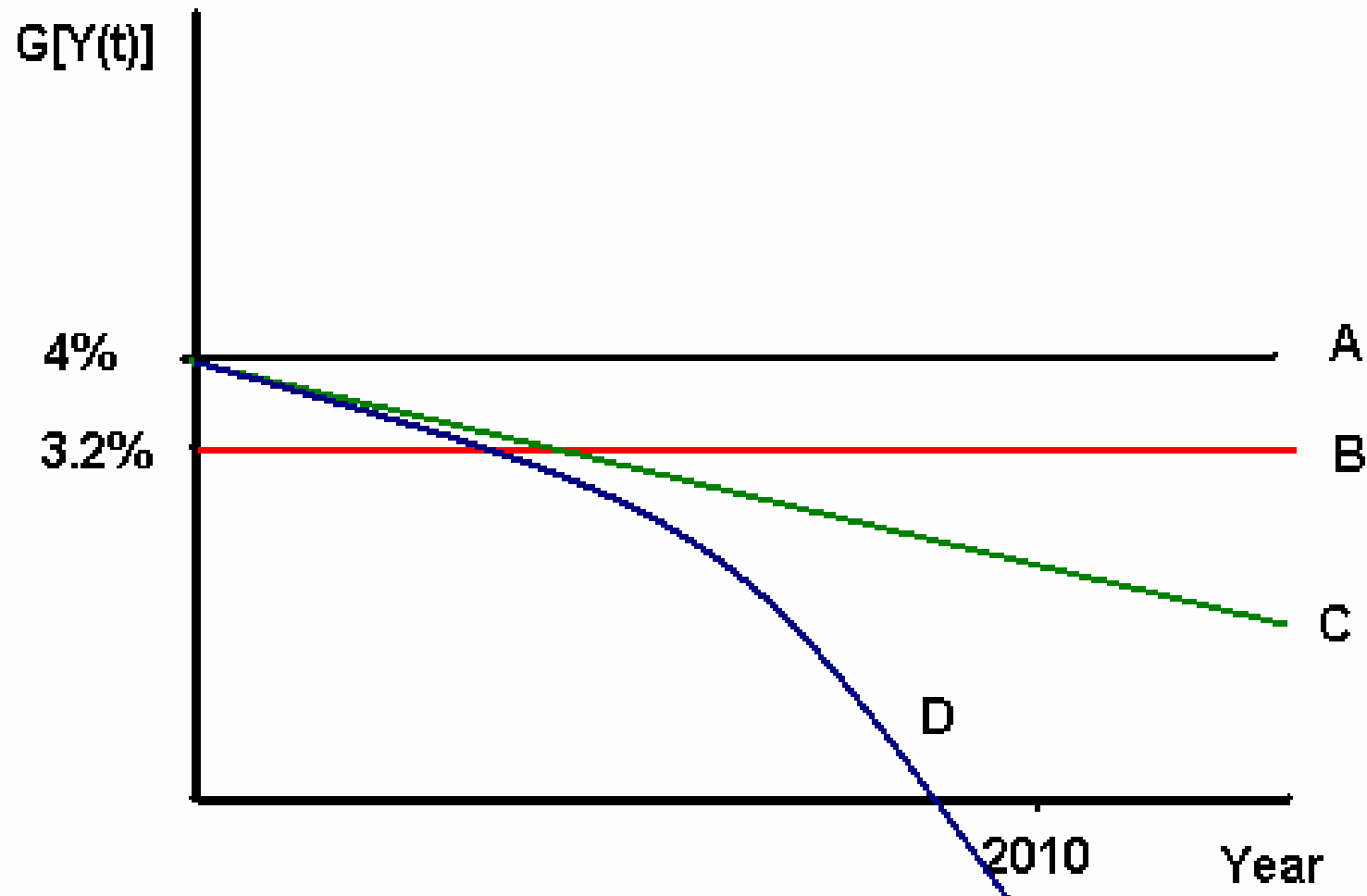
Sources of Economic Growth

- Growth results from accumulation of productive factors; improvements in productivity; re-organization that fosters accumulation and raises productivity
- [Dallas Fed “A Better Way”] micro/macro
- Micro: investment, innovation, education & training; competition
- Macro: reorganization [special role of trade]

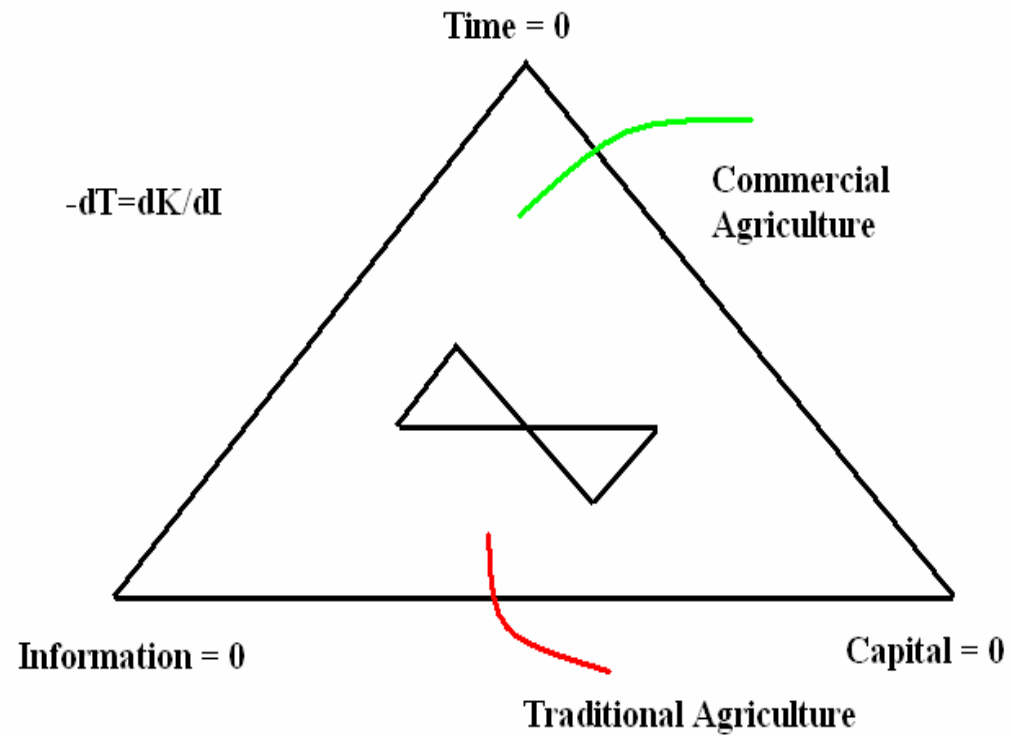
Impact of HIV/AIDS

- Unravels all sources of growth
- Strips time and human capacity out of society and the economic system
- Changes behavior -- individual and organizational -- in fundamental ways.
- Immediate effect is to reduce investment and productivity.
- Falling investment reinforced by a decline in income and savings [typically non-linear]

Macroeconomic Projections Impact of HIV/AIDS on Growth

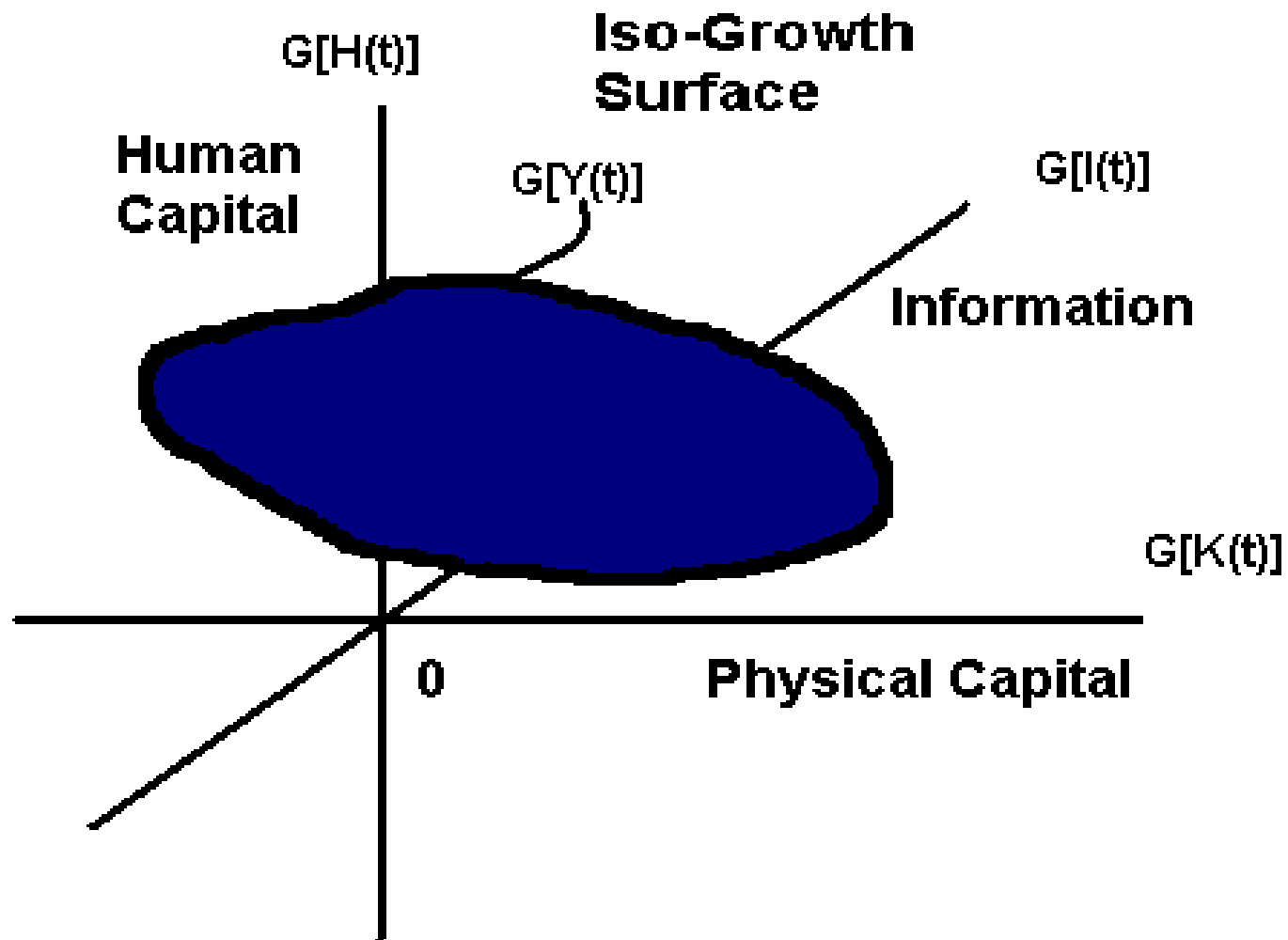


INFORMATION, TIME, CAPITAL TRIAD



Adapted from Spreng/Weinburg *Daedalus* Winter, 1980, 137-143

Growth Framework



Non-Linear Growth Effects

- Economic: cumulative decline in savings and investment
- Organizational: hollowing out of ministries/department/firms
- Networks: fragment as key members fall sick and die.
- Institutions: degrade as incentives to comply with and/or enforce rules-of-game shift

Economic Impact

- Behavior change as decision horizons shorten
- [Recall: economics -- forward looking comparisons of expected benefits and costs over time]
- Investment – current outlays with expectation of a future payoff.
- Examples: education, plant & equipment, social cooperation, reciprocation, financial assets/obligations, economic reform

Organizations

- Formal structures often have limited flexibility
- Loss of staff and staff time leads to “hollowing out” ==> cannot deliver services or meet performance goals.
- Examples: Malawi ministry of agriculture; KZN school system (teachers); Botswana civil service (DPSM)

Networks

- Basis of all modern economies and societies
- Hayek - relevant information is shared;
Kremer -- progress by adding connections
- Endogenous growth models: highlight the cumulative effects of information and knowledge through “agglomeration” and spillover effects [Bangalore, Route 128]
- HIV/AIDS -- loss of information and connections

Institutions

- Rules of the game? What are they? How are they sustained?
- Governance issues; combating opportunism
- Example: who is treated under PEPFAR or 3 by 5? Who determines?
- What is role of equity, efficiency, and effectiveness in combating HIV/AIDS?
- What about the majority who are HIV negative?

Non-Linear Effects

- Impact of HIV/AIDS is path-dependent → effects are asymmetric
- Human capital, skills, organizations, and institutions needed to repair the damage are being undermined.
- The longer HIV/AIDS proceeds the more difficult it is to reverse the damage.

Remedies/Pitfalls

- Counteract HIV/AIDS -- need actions & activities that restore a sense of futurity
- Examples: improve macro management to raise growth rate; recombine productive factors [effective use of information]; reorganize workflow and routines; leadership to support/strengthen institutions

Policy Issue – Scaling Up

- World Bank: *Intensifying Action Against HIV/AIDS in Africa Responding to a Development Crisis* (World Bank 2000) [now MAP initiative]
- Steps: Declare HIV/AIDS a national crisis – appoint a high level national task force
- Gather relevant data to forecast impact
- Grant power to agencies to organize an appropriate multi-sector response
- Identify and mobilize critical partners

Scaling Up -- II

- Appoint skilled/dedicated leaders to guide programs
- Mobilize the needed public/private resources
- Build capacity throughout country to respond
- Mobilize communities to design programs
- Continually monitor and evaluate the activities
- Join sub-regional and regional efforts to increase effectiveness

Implementation?

- How can a country scale-up if HIV/AIDS is eroding human capital, disrupting organizations, fragmenting networks, and degrading institutions.
- Where is the capacity to create the capacity needed to maintain scaled-up programs?
- What will be scaled down so that HIV/AIDS activities can be scaled up?
- World Bank MAP has unspent funds. This is seen as an implementation failure, not as over-reach.

Improving Economic Performance

- Individual businesses take macro conditions as given; but, all cannot do that.
- What can businesses do to improve macroeconomic performance?
- One approach: encouraging public private partnerships, especially in high HIV prevalence countries, to boost public sector capacity

Some Context

- A primary focus is Africa -- long history of slow growth, debt, food insecurity, and “marginalization” in world trade and exchange
- Continuous emphasis on raising economic growth – theme from Lagos Plan of Action to NEPAD
- Reminder: over 2001-2015 NEPAD committed to halving poverty, expand education, and mitigate the effects of HIV/AIDS.

NEPAD

- NEPAD is a growth program: 7 percent average growth -- an investment rate of 35 percent of GDP and capital/output ratio of 5
- Performance (so far) well below this.
- Key issue: How will investment rise and efficiency improve with HIV/AIDS undercutting key capacities?

Investment and Productivity

- Only sustained source is local business
- Governments over-stretched [debt, deficits]
- Donors -- net aid already high; problems of effectiveness and ownership.
- Foreign investors – in strategic areas, but rest requires lead of local investors.
- Challenge: How can local businesses be engaged to foster rapid economic growth?

PPP to Boost Public Sector Capacity

- Barrier to economic growth is weak public sector capacity.
- Governing poorly: too many activities; not focused on activities that matter for growth.
- One remedy: business support to strengthen public sector capacity in areas that promote rapid growth.

What Kind of Business Support for the Public Sector?

Macro Level

- Scale back the development agenda
- Improve macroeconomic management

Sector Level

- Improve management
- Increase efficiency
- Reduce transaction costs
- Training, technical support

Engaging the Government?

- Business leaders pressure government – dialogue, growth forum, national debate
- Form working groups, task forces, special commissions, international experience
- Work with individual ministries, departments, or public agencies
- Improve personnel management, operations, organization, information systems, inventory control, tender procedures....

Engaging the Government II

- Training – management, auditing, computer literacy, budgeting, ...
- Encourage open, transparent business-government interaction focused on economic growth [Mauritius]
- Publish performance data; audit results
- Build on emerging HIV/AIDS partnerships

Challenges to PPP

- Why should businesses bother? Options -- exploit captive market, or leave country.
- Limited trust; weak cooperation with government, and with other businesses.
- Business leaders have few skills in government, and vice versa.
- Gamesmanship, first mover problem; government backsliding

Benefits of Partnership

- Bleak future without cooperation -- every one loses
- Socially responsible: helps public sector to manage and govern effectively.
- Profitable: improved governance is the foundation for rapid economic growth.
- Regenerate a “capable state,” i.e., matches agenda to capacity

Concluding Comments

- Growth framework to understand impacts of HIV/AIDS
- Non-linear effects -- human capital, organizations, networks, institutions
- Remedies -- regenerate a sense of futurity
- Pitfalls of over-reach [scaling up]
- PPP to boost public sector capacity
- Reinforces the case for economic growth

A Final Ditty...

- Even if growth is too slow,
- And the way ahead is foggy,
- Keep your spirits aglow,
- Just remember the froggie..

Don't EVER give up!

