Economic Review March 2004

ECONOMIC IMPACT OF HIV/AIDS IN LESOTHO

In March 2004, the Government of Lesotho (GOL) launched universal HIV/AIDS testing for citizens, but the first three dedicated testing centres will only be operational by the end of April…

Introduction

Human immunodeficiency virus (HIV) was first detected in Lesotho in 1986 and since then, the nation has experienced a dramatic escalation in the HIV/AIDS pandemic in common with other neighbouring countries in Southern Africa. According to the US Agency for International Development (USAID), Lesotho has one of the highest HIV/AIDS prevalence rates in the world at 31 per cent. Nearly one in three Basotho adults aged 15-49 is now infected with HIV. In 2001, life expectancy at birth was 38.6 years, almost half of what it was in 1990. It is tempting to attribute this dramatic decline to the prevalence of HIV/AIDS. Women in the country carry the greatest burden of this disease. It is estimated that 38.1 per cent of women aged 15 - 49 years have HIV infection, whereas the infection rate for men in this age group is 17.4 per cent.

Economic impact

HIV/AIDS in Sub-Saharan Africa and in Lesotho, in particular, is not just a health problem but also an economic issue. It can reverse most of the development work that has been done since independence and drive the region into extreme poverty. Its effects on the economy of Lesotho can be analysed from both a micro and a macro perspectives. That is, firstly, how individuals and their households are affected and, then, how this impacts on the whole economy.

Micro level

Expectedly, most of the negative implications of HIV/AIDS on individuals and their households should become a serious issue once a family member falls sick. Prolonged illness can induce financial hardship in various ways. Firstly, a household may have to increase its healthcare expenditure for the benefit of the infected member. This may be particularly acute in Lesotho where the use of medical aid schemes may not be so widespread. Secondly, in extreme cases, inability to continue participation in productive activities, such as employment and subsistence farming, may worsen the situation. The prospect of a sick member being a breadwinner or an important source of income can considerably increase the level of suffering by a household. Thirdly, a combination of rising healthcare costs and loss of income can in some instances force families into unsustainable debt to meet daily household needs. Fourthly, death and hence funeral services imposes additional economic costs, which can further drain resources available to households.

Furthermore, children from the affected families, some of whom are likely to become orphaned, may be forced out of schools due to financial difficulties. This may turn into a socio-economic problem, in which social deprivation results in increased crime while, at the same time, the country's human resource capacity is depleted. As explained later on, this may also have a bearing on Government resources.

Macro level

Through aggregation, the micro effects translate into a macro scale in a number of ways. First, the HIV/AIDS pandemic has adverse implications for the private sector both at the individual entities' and national levels. These effects could come in the form of costs associated with increased absenteeism due to illness, recruitment and training of replacement workers. Absenteeism induced by prolonged illness may result in reduced production and increased unit labour costs, which may in turn impinge on turnover and profits. In some cases, an escalation of medical expenditure may force firms to increase medical aid contributions for their employees. Furthermore, a rise in the rate of incapacitation or morbidity is likely to hurt the private sector through its impact on staff turnover, as business enterprises recruit and train new personnel. A combination of lower profit margins and increased costs on recruitment and training of personnel has the potential to discourage investment. This does not augur well for the development of the country and the Government's poverty reduction efforts.

Second, by increasing the mortality rate, HIV/AIDS will reduce the country's labour force. As already mentioned, the infection rate is very high within the most productive section of the population. Since this directly affects the country's productive capacity, it has the potential to lower the country's economic growth rate and output, and thereby hinder its development prospects. In addition, this may increase the dependency ratio, that is, the number of the elderly, the sick and children to be supported by the active labour force. This could in turn reduce the national saving rate and thus funds available to finance capital expenditure in the country.

Third, high prevalence of HIV/AIDS is likely to strain government resources in various ways. In the first place, the Government may have to increase funding for public health to cater for the AIDS patients. In addition, as the disease raises the number of orphans, this will increase the demand for Government support for education. At the same time, as the pandemic pushes some households into poverty, the Government may be forced to divert funding from other projects in order to provide financial assistance to the affected families. This can negatively affect the fiscal balance and thereby the development of the country.

Meanwhile, the disease has the potential to reduce the Government's revenue base. As part of the labour force loses its income earning ability due to morbidity or mortality, personal tax revenue payable to the Government will also decline. Furthermore, the potential loss of profitability by private businesses as a result of decreases in productivity, combined with increases in staffing related costs, could reduce corporate tax revenue. In the end, the decline in tax revenue will affect the fiscal balance and limit the Government's delivery of services and its ability to mitigate the impact of HIV/AIDS on the country's economy.

National response

The Government of Lesotho has declared HIV/AIDS a national disaster and set a goal of cutting the adult prevalence rate from 31 per cent to 25 per cent by 2008. In 2002, the Parliament approved a multi-sectoral National AIDS Strategic Plan, which calls for coordination of all HIV/AIDS activities by Government ministries, district offices, donor agencies, non-governmental agencies, the private sector, churches and traditional healers. Consequently, the Lesotho AIDS Programme Coordinating Authority (LAPCA) was established to coordinate nation-wide activities. It was also announced that 2 per cent of total Government expenditure would be devoted to the implementation of the National AIDS Strategic Plan.

In late 2002, Nevirapine, which is used to prevent mother-to-child transmission of HIV, was introduced. However, there is a need to improve distribution and use of this drug. In July 2003, the GOL hosted the Southern African Development Community (SADC) Heads of State Summit on HIV/AIDS. The summit was preceded by Non-Governmental Organisations' (NGOs) Forum that submitted useful recommendations to the Summit. The Heads of State Summit adopted a new SADC HIV/AIDS Strategic Framework and a Programme of Action, 2003 - 2007. The member states committed themselves to accelerate the fight against the pandemic with a focus on access to care, testing and treatment, prevention and education, social mobilisation, access to anti-retroviral drugs, resource mobilisation, and monitoring and evaluation.

In line with this regional effort, the GOL aims to design a cost-effective plan by June 2004 to provide anti-retroviral drugs to the population at affordable prices. In March 2004, universal HIV/AIDS testing for citizens of Lesotho was launched, but the first three dedicated testing centres will only be operational by the end of April. The Government's goal is to have testing facilities available at all the 18 hospitals in the country.

The international donor community is also providing valuable support to the Basotho nation in the fight against HIV/AIDS. At the forefront of donor assistance is the Geneva-based Global Fund, which is donating US$34 million to be spent on HIV/AIDS and Tuberculosis (TB) Programmes for five years. The first disbursement of this grant, amounting to US$12.5 million, has already been released. Other donors in this regard include but are not limited to the Irish Government, the United Kingdom's Department for International Development (DFID) and the United States. Efforts are underway for the World Bank to assist Lesotho to strengthen the national capacity in order to make effective use and account properly for the use of these funds.

Conclusion

As discussed, HIV/AIDS can have a devastating impact on the economy of Lesotho. Among others, prolonged illness can force households into poverty. Through increased absenteeism, it can affect productivity and thereby private sectors' profits. A rise in morbidity and mortality can also reduce the country's productive capacity and thus future growth. This will negatively affect economic growth. In addition, the pandemic has the potential to strain government resources by reducing the tax base and increasing the demand for social support.

Combating HIV/AIDS, malaria and other diseases is one of the eight Millennium Development Goals (MDGs) devised by the United Nations. In Lesotho's case, efforts should be intensified in the fight against HIV/AIDS, in particular. This pandemic could reverse the country's developmental performance. The Government should be applauded for efforts in the fight against this disease and should be encouraged to persevere.

However, there is a limit to what the Government can achieve on its own. It can provide resources and leadership but should be complemented by a collaborative effort by non-governmental organisations (NGOs), community-based organisations and the public at large. Basotho, as a nation, need to fully de-stigmatise the HIV/AIDS infection in order to effectively combat this disease.

Table 1. Monetary and Financial Indicators+

	2003	**2004**	
	Dec	**Jan**	**Feb**
1. Interest rates (Percent Per Annum)			
1.1 Prime Lending rate	12.50	12.50	12.50
1.2 Prime Lending rate in RSA	12.00	11.5	11.5
1.3 Savings Deposit Rate	2.00	2.41	2.31
1.4 Interest rate Margin(1.1 – 1.3)	2.00	10.09	10.19
1.5 Treasury Bill Yield (91-day)	10.57	9.21	9.21
2. Monetary Indicators (Million Maloti)			
2.1 Broad Money (M2)	2297.9	2217.9	2279.1
2.2 Net Claims on Government by the Banking System	-167.0	-386.4	-371.9
2.3 Net Foreign Assets – Banking System	3460.7	3699.4	3845.7
2.4 CBL Net Foreign Assets	2853.0	3188.1	3055.9
2.5 Domestic Credit	380.6	171.6	30.1
2.6 Reserve Money	364.9	333.6	325.50
3. Spot Loti/US$ Exchange Rate (monthly average)	6.500	6.963	6.6618
4. External Sector (Million Maloti)	**2003**		
	Q2	**Q3**	**Q4**
4.1 Current Account Balance	-304.8	-300.6	-299.8
4.2 Capital and Financial Account Balance	319.3	155.5	320.0
4.3 Reserves Assets	-0.8	391.7	-156.6

+These indicators refer to the end of period. Prime and deposit (savings) rates are averages of all commercial banks' rates operating in Lesotho. The Statutory Liquidity Ratio in Lesotho is 25 percent of commercial banks' short-term liabilities.

Table 2. Selected Economic Indicators

	2000	**2001**	**2002***	**2003+**
1. Output Growth(Percent)				
1.1 Gross Domestic Product – GDP	1.3	3.2	3.8	3.3
1.2 Gross Domestic Product Excluding LHWP	0.0	3.5	3.3	3.2
1.3 Gross National Product – GNP	-3.2	0.6	2.5	2.7
1.4 Per capita –GNP	-5.0	-1.7	2.1	2.2
2. Sectoral Growth Rates				
2.1 Agriculture	2.9	0.6	-4.0	-0.4
2.2 Manufacturing	4.4	7.9	6.9	5.0
2.3 Construction	9.7	1.3	6.9	4.0
2.4 Services	-0.9	2.2	3.3	3.6
3. External Sector – Percent of GNP Excluding LHWP				
3.1 Imports of Goods	71.9	74.9	87.3	80.6
3.2 Current Account	-8.8	-2.9	-8.6	-7.8
3.3 Official Reserves (Months of Imports)	8.9	11.7	6.4	5.5
4. Government Budget Balance (Percent of GNP)	-4.9	-1.0	-2.7	-2.5

*Preliminary Estimates +Projections