



In South Africa, Poor Health Can Kill Small Businesses

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Small businesses are everywhere in Durban, South Africa -- "tuck shops" that sell flour, sugar and other items; seamstresses; auto body shops; brick fabricators; bars and restaurants that seat a handful of people.

"If you knock on doors and ask [people] if they have an income-generating business, they'll say, 'Yes, I make garments in my house,'" says Li-Wei Chao, a research associate at the University of Pennsylvania's Population Studies Center, who lives in South Africa.

While it's estimated that these businesses contribute almost 50% of South Africa's total employment and 30% of its gross domestic product, the impact of poor health, and in particular HIV/AIDS, on these enterprises has been largely overlooked by researchers. Measurements of the economic toll of disease tend to focus on the formal economy -- larger, established businesses -- rather than on the informal sector, with its many owner-worker enterprises and businesses that often have just a few employees.



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But Chao, Wharton professor of health care systems [Mark V. Pauly](#) and others are attempting to fill that gap with a new study that examines the impact of poor health on micro and small enterprises in the Durban area. After conducting health surveys of small business owners and then tracking their businesses between 2002 and 2004, the researchers found that "poor baseline health and declines in health over time are both significantly associated with subsequent business closure." Their study, titled "[Poor Health Kills Small Businesses: Illness and Microenterprises in South Africa](#)," was published in the March/April edition of the journal *Health Affairs*.

The co-authors who worked with Chao and Pauly on the study include Helena Szrek and Nuno Sousa Pereira from the University of Porto in Portugal, Frances Bundred from ECI-Africa in South Africa, Catherine Cross from the Human Sciences Research Council in South Africa, and Jeff Gow, a professor at the University of New England in Australia. Although they did not specifically focus on HIV/AIDS, the researchers write that their findings underscore the vulnerability of small businesses to the AIDS epidemic and point to the need for the government to target more health services and prevention efforts toward this informal sector of the economy. HIV/AIDS is the predominant health threat to people living in sub-Saharan Africa, and the prevalence of HIV in some urban areas of South Africa has been estimated at upwards of 30%.

"Poor health impacts the economy," Pauly says. "It seemed clear to us that the demise of many of these small businesses harmed their neighbors as well as the owners themselves."

Chao, a medical doctor who earned a PhD in health economics from Wharton in 2002, became interested in the interplay between health and the economy when working on a project in South Africa for the U.S. Centers for Disease Control and Prevention between 1996 and 1997. He was struck by the South Africans, "who have so little, yet they continue to struggle to live, work and earn enough in order to not go to bed hungry every night." The many micro (up to five workers) and small (up to 100 workers) businesses found throughout the country provide not only essential goods and services, but also much needed jobs, he notes. Unemployment is high in South Africa -- about 30% by official estimates, but as high as 40% by unofficial counts.

"People don't have jobs.... They need to make a living, so they have all these skills they apply," he says. "They start their own businesses to fill a niche." The "tuck shops" dotting the neighborhoods or townships around Durban are like makeshift 7-Eleven stores, often set up in an empty cargo container.

"Panel beating," or auto body shops, are popular, too.

"Virtually all such enterprises begin as one person's idea and develop through one person's efforts," the researchers note in their study. "Therefore, anything that saps the energy of that person potentially limits or destroys the enterprise. Many small enterprises close each year -- and others fail to grow -- for all sorts of reasons, but one potentially important reason that has not been well studied is poor health of a key individual: either the owner or the manager. Indeed, 'enterprise mortality' or 'stunted growth' might be closely linked to the mortality or morbidity of the key person."

"Lost" Services

The researchers chose to focus on Durban for their study because the area has a high prevalence of HIV/AIDS and there is a mix of income, education levels and stages of business development. They began by screening 653 households in mostly African townships around Durban to ask if residents currently or previously ran a business. Thirty-one percent of the households screened had an active business, often a store, restaurant or bar. Another 10% had operated a business in the past but it closed, and 59% had never run a business. Among the active businesses, 45% were one-person enterprises.

They then focused on a subset of 279 households and asked participants to rate their overall health status, with possible responses ranging from "poor" to "excellent." The participants also were asked to answer a 12-item health status questionnaire that provided an objective measure of physical and mental health.

People who currently had a business were more likely to be in better physical health than those who did not have a business or had one that closed, the researchers found. People who ran multi-person businesses were especially apt to be in better physical health. Mental health scores did not differ significantly between those who ran businesses and those who didn't.

The researchers also asked hypothetically what would happen if the business owner were absent because of poor health. Among single-person businesses, 70% said they had no one to fill in. In comparison, about 88% of multi-person businesses said they had someone to cover for the owner in case of ill health. Only 29% of single-person businesses said they could remain open if the owner were absent.

The researchers then tracked businesses for two years to see if they survived or closed, and they also followed up on the health status of the owners during the same time period. Of 164 businesses identified in the first year of the study, 72 (44%) survived. Owners with higher initial physical health scores were more likely to remain in business than owners who at the start of the study had lower health scores. In addition, the researchers found that owners who experienced deteriorations in health over the course of the study were also more likely to close their businesses.

"Our results convey an important message for policy: Illness is harmful to the economic health of a large economically relevant but often neglected segment of the population," they write. "We found that the poor health of the owners of small businesses led to the closure of these businesses and that these businesses were not replaced by new ones. Hence, these services can be considered 'lost' in each community in which the businesses previously existed."

The closing of a corner store, for instance, would not just hurt the owner and his family, but also neighbors who depend on the shop for their daily provisions -- perhaps because they don't have transportation to get to a more distant store.

"In a lot of the isolated neighborhoods, these enterprises provide a very useful function," Pauly says.

The researchers add that their findings highlight the need for more government resources for health services. "There could be an economic case for investing resources in the prevention and treatment of disease in the lower-income informal sector in developing countries.... Prevention of poor health would help avoid the closure of businesses, and sufficient treatment would enable the sick to continue running their businesses."

Battling HIV/AIDS

Though the study did not focus specifically on HIV/AIDS, Chao says the findings add to the evidence

that, in addition to its horrific human toll, the disease "does impact the bottom line."

South Africa has both private and public health care sectors. Government-funded health clinics, which lower-income people rely on, are often lacking, with long waits to see a doctor and limited resources. The availability of antiretroviral drugs used to treat HIV infection is increasing at the clinics but is still very inadequate, Chao says. "There needs to be more clinics, shorter waiting times, more personnel and more antiretroviral drugs. It's hard to close shop and go there and wait for three or five hours."

The need for better health care for all levels of society is especially pressing, given the scope of the AIDS epidemic. According to a 2006 report by UNAIDS, about two-thirds of all HIV cases globally are in sub-Saharan Africa. The organization estimates that there are 5.5 million people in South Africa who are infected with HIV, including 240,000 children. Studies done in prenatal care clinics suggest that 30% of pregnant women in some areas are HIV-positive. According to a household survey done in 2005 in South Africa, 13% of those tested for HIV for the first time were found to be HIV positive.

Chao notes there has been some progress in South Africa in convincing large companies that they should be concerned about the need for HIV prevention efforts and testing for their employees, since replacing sick or deceased workers is not as easy as it might seem. But developing a health care strategy to reach the more informal economy poses a bigger challenge.

"The government is able to pressure the large corporations to provide the preventive care and the treatment, but there is no such entity the government can lean on with these micro and small businesses," Pauly says.

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