



TRANSPARENCY & GOOD GOVERNANCE IN GLOBAL HEALTH

TRANSPARENCY INTERNATIONAL UK'S
PHARMACEUTICALS & HEALTHCARE PROGRAMME

Transparency International (TI) is the world's leading non-governmental anti-corruption organisation. With more than 100 Chapters worldwide, TI has extensive global expertise and understanding of corruption.

Transparency International UK (TI-UK) is the UK chapter of TI. We raise awareness about corruption; advocate legal and regulatory reform at national and international levels; design practical tools for institutions, individuals and companies wishing to combat corruption; and act as a leading centre of anti-corruption expertise in the UK. TI-UK's registered UK charity number is 1112842.

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Introduction

Corruption within the pharmaceutical and healthcare health sector is one of the largest factors preventing the achievement of global health goals

Laurence Cockcroft, Co-Founder of Transparency International and author of *Global Corruption*

Corruption in any sector is damaging to society and the economy. In the pharmaceutical and healthcare sector it puts health and life at risk.

Seventeen per cent of people worldwide stated they had paid a bribe when dealing with the medical sector in a global survey of 114,000 citizens in 2013,¹ and 45 per cent believed medical and health services to be corrupt or extremely corrupt.² Other surveys, such as Transparency International's Bribe Payers Index, reinforce this finding.³

With global spending on health of around US\$7 trillion annually, the size of funds flowing through the pharmaceutical and healthcare sector makes it a lucrative and attractive target for corruption.⁴ Estimates of global health public procurement funds lost to corruption range from ten to twenty five per cent.⁵ Yet if only one percent of global health spending were lost to corruption, representing US\$70 billion, and it was put back into healthcare, this would be US\$10 billion more than the sum needed to achieve the Millennium Development Goals on health.⁶

Other factors make this a sector that is particularly vulnerable to corruption. It is a complex, global sector with asymmetrical information flows that require specialists to understand what is really happening. It has multiple actors and an unusual interplay between the public and private sectors.

As in other sectors, globalisation has brought new challenges, with companies operating in new markets in which corruption is prevalent, and companies from those markets starting to operate internationally.

Corruption has consequently taken root in the pharmaceutical and healthcare sector. It has been observed in the development of drugs and patents, in procurement, in the delivery of health and medical services and through medical insurance systems. In addition, the lack of transparency has resulted in the sector losing the trust of its customers. Instead of providing healthcare for the benefit of patients and society, there is a danger that the sector is perceived to be enriching itself, often at the expense of those that need it most.

What can Transparency International do?

Building on 20 years of experience in this and other sectors, Transparency International UK is taking up the challenge of analysing, understanding and combatting corruption in this vital sector. We aim to do so through a coordinated international initiative, working in close coalition with Transparency International national chapters throughout the world and other partners from the public and private sector who share our objectives.

We have embarked on a pilot project, in the expectation of launching a full programme within twelve months that will produce new evidence and information, and provide a clearly articulated case that will lead to policy changes and real progress in understanding corruption and improving anti-corruption resilience.

We have a vision, and are forming our strategy, and in due course will be looking for funds. For now, we are looking for expertise, insight, and above all, for allies who wish to work with us to pursue a critical issue for the benefit of global health.

1. Average across 95 countries. Transparency International, *Global Corruption Barometer 2013*, (Berlin: Transparency International 2013).

2. Ibid.

3. Transparency International, *Bribe Payers Index 2011*, (Berlin: Transparency 2011). Pharmaceutical Sector ranked 13th out of 19 sectors, with 19 being the worst performer. This ranks industrial sectors according to how likely they are to pay bribes according to their peers. The index is based on an opinion survey of 3,000 senior business executives from developed and developing countries.

4. www.who.int/mediacentre/factsheets/fs319/en/ [accessed: 18 June 2014].

5. Savedoff & Hussmann, 2006.

6. OECD, *Issue Paper: Achieving the Millennium Development Goals More money or better policies (or both)?*, (Paris: OECD 2012).

Corruption in the pharmaceutical & healthcare sector: an indication of scale

The amount of money flowing through the global health sector is staggering. In 2010, according to the WHO Global Health Expenditure Database, global spending on health was nearly US\$7 trillion.⁷

Health systems

- An estimated 10 to 25 per cent of global spending on health public procurement is lost to corruption.⁸
- It has been estimated that 3.29 to 10 per cent of health care funds globally may be lost through fraud, with an average percentage range loss of 5.59 per cent.⁹

Impact and public perception

- In 17 countries surveyed in 2013, over 70% of the public believed medical and health services to be corrupt or extremely corrupt – these are Serbia; Albania; Tanzania; Bulgaria; Kyrgyzstan; Morocco; Ukraine; Bosnia and Herzegovina; Russia; Egypt; Greece; Lithuania; Mongolia; Kosovo; Malawi; Moldova; Mozambique.¹⁰



Flickr/Creative Commons: Brandon Giesbrecht

7. www.who.int/mediacentre/factsheets/fs319/en/ [accessed: 18 June 2014].

8. Savedoff & Hussmann (2006) in J. C. Kohler and A. Makady, "Harnessing Global Health Diplomacy to Curb Corruption in Health", *Journal of Health Diplomacy* 2013.

9. G. Brooks, M. Button J Gee, "The Scale of Healthcare Fraud: A Global Evaluation", *Security Journal*, 2012.

10. Transparency International, *Global Corruption Barometer*, (Berlin: TI, 2013).

Why corruption and transparency in the pharmaceutical & healthcare sector matters

Corruption is the abuse of entrusted power for private gain. It hurts everyone whose life, health, livelihood or wellbeing depends on the integrity of people in a position of authority. Corruption holds back economic development, prevents a free market operating for businesses and consumers, and further exploits already marginalised groups.

The impact of corruption in the pharmaceutical and healthcare sector is unusual in its direct effects on its victims. Ultimately corruption in this sector has the capacity to cause serious harm to individuals and society. This effect is usually greatest for those who are most vulnerable. Two prominent impacts of corruption in the pharmaceutical and healthcare sector are:

- *Healthcare outcomes* – less effective healthcare. The ability to provide effective and high quality medical care can be severely reduced by corruption and the theft or misallocation of public resources. Corruption also increases the risk of unsafe medicines reaching the market and the likelihood of patients using them.
- *Economic efficiency* – less money for healthcare. There is not only the direct effect of reduced flow of funds to healthcare, but also the consequential effects of increased health burden on national economies.



Flickr/Creative Commons: World Health Organisation (WHO)

Types of corruption

There are many forms of corruption within the pharmaceutical and healthcare sector. Understanding the types and prevalence of corruption will form a component of our future research. Below we have highlighted seven areas that are notable in scale and impact.

Counterfeit, falsified and substandard drugs

Counterfeiting and production of sub-standard medicines pose a significant and direct threat to public health. It can be facilitated by corruption, and most prevalent in countries with weaker regulatory and enforcement systems, such as in sub-Saharan Africa where one third of anti-malarial drugs are assessed to be falsified.¹¹

Diversion of public resources

Public officials and senior healthcare professionals often have access to vast healthcare budgets which are vulnerable to corruption, embezzlement and theft, particularly in countries with weak public financial management systems.

Pharmaceutical monopolies

Any uncompetitive market creates an environment for activities such as price fixing, regulatory capture and the production of low quality of drugs. Market entry and maintaining a monopoly can provide incentives for bribe-paying.

Reliance on regulators

Heavily-regulated industries, which have a system of licensing and certification, are vulnerable to corruption. The current patent regime establishes monopolies for individual treatments which, combined with high Research and Development (R&D) costs and high profits can incentivise inappropriate lobbying, regulatory capture and manipulation of clinical trials.

Pharma-physician interaction

Unethical marketing practices are enabled by weak and inconsistent regulation and skewed incentives for sales staff. Despite recent changes by some companies and transparency legislation, such as The Sunshine Act in U.S.A., there is still much to achieve across the globe and to build upon successes already made.

Procurement

Procurement in any sector presents a high risk of corruption. Large publicly-funded procurements for drugs, medical devices, medical services, healthcare delivery, facilities management and healthcare infrastructure are particularly susceptible to corruption due to the large size of contracts which make them attractive targets.¹²

Demand-side bribery

This is often the most visible form of corruption to citizens. In many countries it is common for healthcare providers to demand informal payments so to gain access to quicker or better quality medicine, often leaving the poor without essential medical care.

11. G. M. L. Nayyar, J. G. Breman, P. N. Newton and J. Herrington, "Poor-quality antimalarial drugs in southeast Asia and sub-Saharan Africa", *The Lancet* 2012.

12. UNDP, *Fighting corruption in the health sector: Methods, Tools and Practices*, (New York: UNDP, 2000).

Demonstrating impact through research¹³

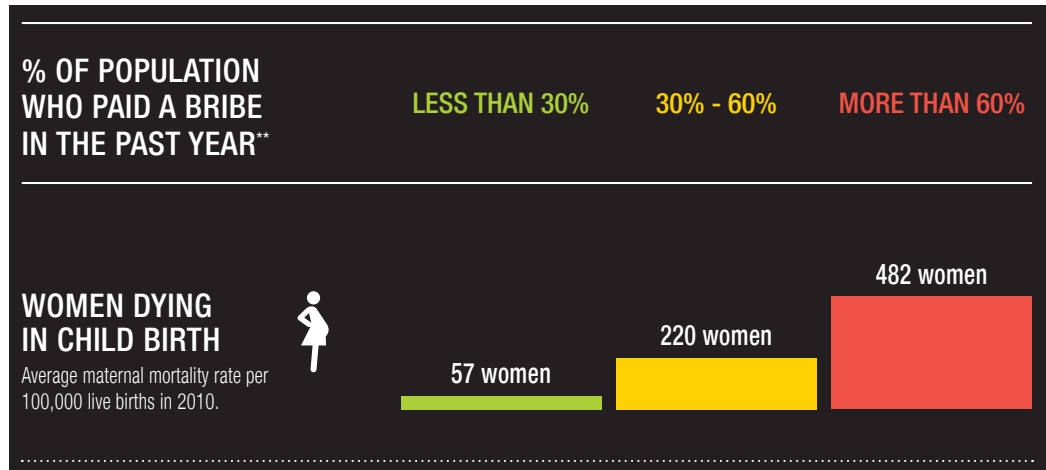
Transparency International has analysed the correlation between progress on key Millennium Development Goals targets and levels of corruption and governance in a given country.

The research conducted shows that in countries where there is more bribery, more women die during child birth. Maternal health, one of the MDGs that will not be met, is positively and significantly correlated with lower levels of bribery, as seen in the case of countries such as Colombia.¹⁴ This holds true even when controlling for a country's level of public expenditure on healthcare.¹⁵

In practice, countries that are more transparent and where there is good oversight and law enforcement, more pregnant women get proper healthcare and have healthy births. This can be seen in a wider context than just bribery in *Case Study Two: Preventing the theft of childbirth funds* later in this document (page 7).

Our preliminary review has shown that there is a need for more data and information on this subject to enable a thorough analysis of the problem and appropriate policy recommendations to be made.

Figure 1. Bribery's negative correlation with maternal health. Originally published in Transparency International, 2015 and beyond: the governance solution for development, Working paper #01/2013



13. Originally published in Transparency International, *2015 and beyond: the governance solution for development, Working paper #01: 2013* (Berlin: TI, 2013).

14. This relationship holds true for bribery rates in 2010, 2011 and 2013.

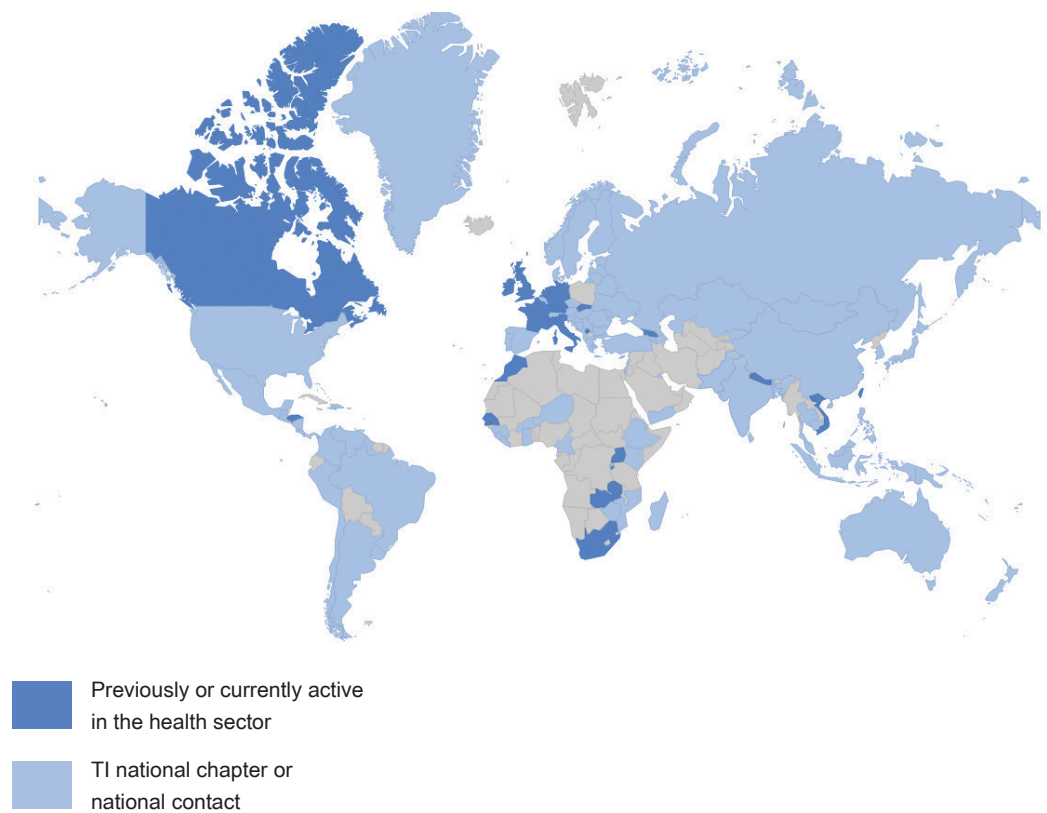
15. The bribery sample sizes for the analysis of maternal mortality were 83 countries in 2010/11 and 88 in 2013.

Transparency International's experience

Transparency International is the world's leading non-governmental anti-corruption organisation. Our mission is to stop corruption and promote transparency, accountability and integrity at all levels and across all sectors of society. Our core values are: transparency, accountability, integrity, solidarity, courage, justice and democracy. With a

network of more than 100 Chapters and affiliates worldwide, TI has extensive global expertise and understanding of corruption. This extends to the pharmaceutical and healthcare sector in which many TI Chapters have fought, and continue to fight corruption, as shown on map below.

*Figure 2. TI national chapters active in the health sector
Correct as of June 2014.*



Transparency International

Case Studies

Case Study One: Drug deals in Kosovo¹⁶

With price tags running into millions of dollars, health contracts can mean big money for the winning companies. And where costs are high, so are the risks of corruption – particularly when deals are kept away from public scrutiny. Still in a transitional phase, these risks are particularly high in Kosovo – and with limited resources to go around it's important that money is well-spent. Keen to ensure this happens, Transparency International's centre in Kosovo keeps watch over new contracts. Consulting with experts, the team help ensure work goes to the best bidder, at the best price.

In late 2012, one item started to raise alarm bells. "When we examined the medication on the state's essential drugs list, we found an anti-nausea drug listed under treatments for cancer," says Merita, project manager at the centre, who led the monitoring initiative. And it wasn't only that it had been misclassified – the drug also seemed to be mispriced. "Two years earlier the state had purchased two different kinds of anti-vomiting medication at a cost of just €7,920." Merita explains, "Now, the two previous brands had been cancelled in favour of a new alternative, and the total had skyrocketed to €1.2 million. It wasn't only that this new medication was almost 60 times more expensive per unit; the quantities on order had more than doubled.

Transparency International Kosovo spoke to pharmaceutical experts to find out if there was a reason for the change in supplier. No discernible medicinal benefits could be identified. TI Kosovo also analysed the procurement practices of neighbouring countries in the region, looking to see if any of them chose to rely exclusively on this alternative. No examples were found.

Releasing the findings at a press conference, the story quickly attracted widespread public attention, prompting swift action from the health minister, who quickly organised a committee to look into the charges. Following consultation with the committee, the health minister publicly accepted TI Kosovo's analysis, and refused to sign off on the deal. The medication was removed from the essential drugs list, and reclassified as an anti-nausea treatment.

Taken up by the state prosecutor and the local economic police, an investigation is ongoing into how the case came about. While there have been no official results so far, one message is clear already, says Merita. "Health procurement is too important to be kept in the shadows. For both our budget and our safety, the public has to be able to keep watch."

Case Study Two: Preventing the theft of childbirth funds¹⁷

Childbirth can be a dangerous prospect in much of Nepal's remote mountainous regions. Following custom, most women give birth at home, without medical equipment or supervision. When there are complications, treatment is administered by a local birth attendant with little if any formal training. As a result, as many as six Nepalese women die giving birth every day. Many of them are teenagers.¹⁸ Looking to improve the situation, the government started a new incentive programme that offers small cash allowances to women who gave birth in hospital. It's the kind of initiative that is desperately needed.

16. Originally published in *Drug Deal* by Transparency International: <http://www.transparency.org/news/story/drugdeal>

17. Originally published in *Birth Rights* by Transparency International: <http://www.transparency.org/news/story/birthrights>

18. For the MDG figures, see: http://www.who.int/pmnch/media/news/2012/20120516_unfpa_report/en/

Tipped off by a whistleblower, Transparency International's legal advice centre in Nepal exposed a number of corrupt health officials who were stealing money meant to help expectant mothers. The funds, which were created to incentivise hospital treatment in regions where home births left expectant mothers at risk, were instead being pocketed by officials who created lists of fake mothers to cover their tracks. Working with the whistleblower to break the case to the media, Transparency International Nepal successfully prompted the officials to admit their wrongdoing and return the money to state coffers. The possibility remains, however, that other leakages may have gone unnoticed – undermining development, and driving up the cost to the taxpayer.

Case Study Three: Transparency International Georgia – Unearthing systemic issues in the Georgian healthcare sector

In 2012, TI Georgia ran the project Promoting a Transparent Healthcare Sector in Georgia funded by the Embassy of the Netherlands in Georgia. A significant component of the project was a comprehensive assessment of the health sector. The three major sectors studied were health insurance, hospitals and pharmaceutical. Within each, issues of competition, market structure, the impact of the government's healthcare policy on the pharmaceutical market, and the quality and access to health care services, vertical integration of the three sectors, and activities of the major companies in these sectors were all researched.

When focussing on the pharmaceutical and hospital sectors TI Georgia assessed how the situation and policy affect the accessibility, affordability, and quality of healthcare. One important finding was that the pharmaceutical market in Georgia is dominated by three major companies. The research showed how in 2010 the abuse of market dominance of these companies resulted in markups that exceeded 100 per cent, creating a situation whereby expenditure on health accounted for 34 per cent of average household disposable income.¹⁹ Further, between 2007 and 2010, expenditures on pharmaceuticals and medical non-durables grew at a pace of 22.7 per cent each year.²⁰ A major challenge to the research was that while many of the respondents had several examples of how the three large companies abused their dominance on the market, none of these respondents were willing to speak up.

Case Study Four: Exposing corruption in the health sector saves lives in Honduras²¹

In March 2013, Asociación por una Sociedad más Justa (ASJ), Transparency International's partner in Honduras, presented a report to the government about corruption in the health sector. It provided proof that millions of dollars' worth of medicine were being siphoned off from the state-controlled Central Medicines Warehouse.

The report revealed how corruption in the purchase, sales and distribution of pharmaceuticals to state hospitals and clinics was endangering the lives of untold numbers of poor Hondurans and others who needed medicine the most. Beyond the missing drugs, with little control on medication entering the depot, counterfeit and expired drugs were making their way to hospitals undetected. Government ordered raids on the warehouse were swiftly followed by investigation of the case and resulted in the arrest of six people, including warehouse employees, pharmaceutical suppliers and civil servants.

During his inaugural address in late January of this year, the president Juan Orlando Hernández announced that civil servants would no longer be in charge of buying and distributing medicines in Honduras. Thanks to ASJ's efforts to bring corruption and malpractice in the health sector to light and advocate for effective reform, the Honduran president has asked for our partner organisation's continued involvement in the issue to ensure a transparent process for state purchases of pharmaceuticals. From now on there will be an independent trust responsible for the buying and distribution of pharmaceuticals to state-run hospitals.

The path-breaking work of ASJ and its coalition partners on this case required a great deal of persistence, meticulous investigative skills and a strong ability to work with reform-minded actors for change. But above all it required a great deal of courage to speak out in a country as violent as Honduras, a country where the murder rate is the highest in the world and organised crime is rife, investigating corruption poses a real risk. The results, however – new laws, criminal convictions and lives saved – are real and immeasurable.

19. Transparency International Georgia, *The Georgian Pharmaceutical Market*, (Tbilisi: TI Georgia, 2012)

20. Transparency International Georgia 2012

21. Originally published in *Exposing health sector corruption saves lives in Honduras* by Transparency International: <http://www.transparency.org/news/feature/exposingdhealthdsectorddcorruptiondsavesdlivesdinddhonduras>

Become involved

The pharmaceutical and healthcare sector has undergone, and is going through, a period of significant change: from new regulation for the private sector to the emerging landscape of the post-2015 development agenda and global population growth. It is the aim of this programme to be proactive in addressing and working with this changing environment and to ensure that world health gets better by tackling the corruption that can so easily undermine healthcare.

The long-term ambition of Transparency International's Pharmaceuticals and Healthcare Programme is to make real changes towards the prevention of corruption through robust research, strong advocacy and delivering practical tools to be used by those encountering corruption issues in this sector.

During 2014 and beyond, our intention is to engage pharmaceutical and healthcare companies, civil society, regulatory bodies, and international organisations who wish to be part of this endeavour.

We hope that you will join us.

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