



# POWER

## PRESCRIPTION

[Even with no charter in place, the pharmaceutical sector has found pioneering ways to comply and score the right points for the right reasons](#)  
**By Kerry Dimmer**

**When** the pharmaceutical industry began writing its draft Health Charter in the days of Health Minister Manto Tshabalala-Msimang, it did so with enthusiasm.

The negotiating body comprised a comprehensive group of health professionals, civil society and industry, and the draft was considered to be very well structured. It included, among other items like basic healthcare and how to deliver it, the way broad-based empowerment would be embraced by the industry.

And then? Nothing. The charter was shelved by the Health Department during the final stages. Discussions around National Health Insurance had taken priority and many of the issues addressed in the draft charter were, in any case, included in the new insurance scheme. But not BEE.

'At the time it made no sense,' says Val Beaumont, executive director of Innovative Medicines South Africa (Imsa). Like the Pharmaceutical Industry Association of SA (Piasa), Imsa is a trade association for the sector. 'However, what we realised quite quickly was that the DTI's generic Codes of Good Practice applied.

'Actually, there wasn't a lot of difference between our charter and the BEE scorecard and many of the sector's companies had started doing their own thing instead of as

a collective, which clearly indicated their eagerness to include empowerment in their operating procedures,' she says. 'So I don't believe we're going to see a revival of the Health Charter.'

The nature of the pharmaceutical industry in SA has a significant foreign component, as most new molecules and a large proportion of medicines are provided by multinational organisations. This presents a major challenge for their SA operations – many multinationals have global policies that prevent them from complying with the ownership element of BBBEE through the traditional sale of shares to black South Africans.

The DTI's solution is to allow for contributions in lieu of a direct sale of equity, which count towards the ownership element of BEE. The value of such contributions is measured against 25% of the value of a multinational's SA operation, or against 4% of the total revenue from such operations annually.

Another problem is that much of the funding that is used for research and socio-economic development is sourced from the global host, and in terms of the BEE scorecard, only the money that comes directly from the local subsidiary is counted as relevant to BEE.

A third complication lies in the current tender system that is in place for medicine acquisition that favours local manufacturers,

obviously because of the ownership bias, which makes it harder for multinationals to compete.

Despite these issues, the pharmaceutical sector is determined to comply with the BEE codes even if practices do not totally align.

'We all continue to do things that may

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not be recognised,' says Beaumont. 'And although that's not a problem it would certainly provide further incentive for foreign investment if the DTI could find practical mechanisms around these problems.'

Three years ago, Piasa introduced an initiative to encourage more of its then 18 members – holding 32% market share – to embrace transformation.

'At the time we felt that the industry had not adequately embraced BEE and needed guidance and assistance,' says COO Vicki St Quintin. 'Our objective was to encourage members to be rated as a starting point and to set a base for future measurement.

'With the help of an external consultant we have twice surveyed our members on their progress and their readiness to be rated. In 2009, 10 of our member companies held BBBEE ratings compared to only three in 2008. So we're making good progress.'

What Piasa found was an average total score rising from 35–43% from 2008–09. Most of its member companies scored fully in the socio-economic pillar and in many cases far exceeded the set targets.

'The research also showed that compared to the national average of the JSE-listed companies, our members scored comparably or above average in preferential procurement, management control, employment equity and skills development,' says St Quintin.

'As our members engage in the process, they find BEE is far less daunting a prospect than they thought. In losing their fear, they get better at implementing it and continue to improve. It is clear from the scores that those companies that have engaged in the rating process are achieving much more than those who have not yet become actively involved.'

What is clear is that the pharmaceutical sector really believes that empowerment makes business sense and that it's critical in terms of business development. In this vein, the industry has become innovative in its approach to BEE. The hiccup of ownership and the shortcomings of compliance, have

been overcome by the opportunities to be found in upskilling, learnership programmes and, more importantly, in the development of the socio-economic pillar.

If one looks at all the initiatives in place that address BEE, it appears that the overriding focus is aligned to health policies and universal access to health.

For a socio-economic programme to qualify as a BEE project it has to be focused at candidates or a community where some 80% of participants reap the benefits. What you'll find therefore is a number of pharmaceutical company-funded infrastructural developments that ultimately all contribute to improved health.

Along with the development of housing, hostels, crèches, schools and feeding schemes that have been sponsored by pharmaceutical organisations, you'll find a number of innovative programmes to encourage entry into the health sector. Because nurses, hospice caregivers, pharmacists and doctors are so desperately needed, bursaries and advanced training programmes are offered across the education board.

Awareness campaigns focusing on HIV/Aids, diabetes, tuberculosis and cancer are held and blood pressure and cholesterol checks are offered. These all serve to educate communities and provide interventions that empower people with knowledge about their health status.

For example, Imsa launched a campaign encouraging university students to know their HIV status. An impressive 21 000 students were tested, 58% of which had never been tested before.

'This is really exciting,' says Beaumont. 'We didn't set out with this in mind as a BEE initiative but in the end this was also achieved. So while it's for the benefit of health and goes a long way to students having more knowledge about protecting themselves, one has made a difference to a broad community.'

Informal settlements are particularly vulnerable to diseases like tuberculosis and this

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is where the role of the pharmaceutical industry excels. Drug donation programmes (that support WHO in the research of neglected diseases) and technology-sharing by means of awarding international licences to local manufacturers, all satisfy a broader number of BEE pillars.

It's the ownership deals, however, that make the news. The one that was concluded by Adcock Ingram in 2009 was a landmark R1.3 billion for the healthcare industry. Its BEE partners – Kagiso Health Consortium and Kurisani Youth Development Trust – acquired 13% of Adcock Ingram's issued share capital, with the transaction translating into some 850 000 beneficiaries.

The Clicks Group – comprising retail stores Clicks, The Body Shop, Musica and United Pharmaceutical Distributors – in recognising the shortage of pharmacists in its industry, announced last year that it had introduced a R1.2-billion share ownership scheme. This will see 10% of its group shares issued to employees, with 70% of those allocated to black people – 60% of which are black women.

'Pharmacists, senior black managers and longer serving employees will receive higher share allocations,' said Clicks Group CEO David Kneale in the press. He hopes the scheme will enhance the group's ability to attract pharmacists by giving them the opportunity to share in the long-term growth and capital appreciation of the group.

'Extending share ownership to all employees will accelerate transformation

and build on the progress we have made across other areas of BEE, particularly employment equity, skills development, preferential procurement and socio-economic development.'

Merck South Africa, subsidiary of German giant, Merck KGaA, sold its manufacturing operations in Johannesburg to Nkunzi Investment Holdings, a black-controlled, -managed and -owned investment company. The deal gave the existing management team an opportunity to become shareholders in Nkunzi Pharmaceuticals, which began trading in May.

Aspen Pharmacare has also embraced black ownership. Its R645-million empowerment deal saw the issue of 13.4 million shares to Imithi Investment, with a current 48 million shares under the direct ownership of BEE shareholders.

These deals go to show that despite the odds being stacked against BEE ownership in the pharmaceutical industry, it is possible. ■