Vulnerabilities of the Pharmaceutical Sector to Corruption

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Objectives

• To explain how the pharmaceutical sector is vulnerable to corruption

• To provide examples of where the pharmaceutical sector is vulnerable to corruption

• To describe how good governance may help curb corruption
What Do You See?

Quality Controls
Legal definitions

Risk
Negligence

Threat
Criminal Networks

Fraud
Regulations

Global Problem
Drug Resistance

Supply Chains
Weak Laws

Reputational damage
Border control

Corruption
Preventive measures

Intellectual Property
Profits

Lobby Groups
Cure

Access and lack thereof

Intent
Severinovskaya, EL (2014, April 24)
The Back Story

• Global pharmaceutical market is projected to reach $1.12 trillion in 2022

• $17% of people worldwide stated they had paid a bribe when dealing with the medical sector

• Estimated 10-25% public procurement spending is lost to corruption

Impact of Corruption in the Pharmaceutical Sector

- **Economic impact** – public funds wasted

- **Health impact** – reduces the government’s capacity to provide good quality services and products; patients may turn to unsafe medical products available on the market instead of seeking health services, leading to poor health outcomes for the population

- **Government trust impact** – inefficiency and lack of transparency reduces public institutions’ credibility and erodes citizen trust
Overview of Corruption Opportunities: Health System

Why Pharmaceuticals Matter?

The “So What” Factor

- Pharmaceutical expenditure is typically one of the largest line items for health budgets
- Pharmaceuticals can prevent or delay health conditions which require more costly care
- Improper use of medicines, substandard and falsified medicines and inflated drug prices top 3 of the 10 leading inefficiencies in the health system

Why is the Pharmaceutical Sector Vulnerable to Corruption?

• Technically complex sector
• Asymmetric information between stakeholders
• Many stakeholders – accountability?
• Standard enforcement not always norm given limited financial and human resources in many developing countries

• \textit{Corruption versus inefficiency line often blurred}
Why the Pharmaceutical Sector is Vulnerable to Corruption (2)

• Significant degree of government involvement in its regulation
• State intervention needed given the imperfect market
• Also, rationalised on the grounds of protecting public health
• If insufficient checks and balances, corruption may happen
Why the Pharmaceutical Sector is Vulnerable to Corruption (3)

• Advances in technology are making it harder to distinguish authentic pharmaceutical products from falsified or sub-standard ones

• The WHO estimates that about 25 per cent of medicines consumed in developing countries are falsified or substandard
  
  • High cost of medicines
  
  • ↑ demand ↓ supply/shortage
Why the Pharmaceutical Sector is Vulnerable to Corruption (4)

- Lack of legislation/enforcement (light or no penalties for breaches)
  - 30 % of WHO member states = no regulation or dysfunctional
- Little liaison between law enforcement, customs and medicine regulators
- Poor information dissemination (public and health workers)
- Complex trading, no documentation (paper trail)

Pharmaceutical Sector: Key Points

Source: Adapted from Cohen, J.C., Mrazek, M., & Hawkins, L., ‘Corruption and pharmaceuticals: strengthening good governance to improve access’ 2007
Pharmaceutical Sector Corruption Risks

R&D
- Falsifying information
- Selective publication of data
- Research capture and conflicts of interest
- Exploitation of relaxed regulations

Marketing
- Direct prescription influencing
- Indirect prescription influencing
- Off-label marketing
- Unethical positive list promotion

Political
- Nepotism and favouritism
- High level embezzlement
- State capture
- Conflict of interest
- Trading in influence
- Revolving door

Regulation
- Undue influence on health policy
- Undue influence on market regulations

Procurement
- Rigged bidding
- Payoffs for contract “wins”
- Inflated prices
Transparency

- Requires that citizens are fully informed as to how and why public policy decisions are taken
- Understanding how decisions are made requires information about procedures and criteria used by policy-makers to reach decisions
- Understanding why decisions are made requires disclosure of the information drawn on by policy-makers and revelation of the arguments for or against a decision.

Accountability

- Accountability cuts across financial, performance and political/democratic domains

- Includes processes that require institutions or organizations to answer to those who will be affected by decisions or actions taken by them

- Accountability also requires measurement of goals and results, justification for results to internal and external monitors, and sanctions for nonperformance or corrupt behavior

Take-Aways

- Pharmaceutical sector technically complex with many stakeholders – varying degrees of accountability

- There are many opportunities for corruption “events” particularly when limited human and financial resources to ensure oversight

- The implementation of components of good governance *can* help reduce the likelihood of corruption