



Raising Money to Treat the World's Sickest People Isn't the Problem: Spending It Is

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In the debate over how to build better models to help the world's neediest citizens, supporters of for-profit social-impact organizations argue that their model is more sustainable than non-profit schemes. Non-profit and foundation executives agree that new paradigms are necessary, but caution that for-profit models could ultimately put profit ahead of serving the poor.



The issues around for-profit vs. non-profit models were further explored at the recent Wharton Social Impact Management (SIM) Conference whose theme -- "Solutions to Social Problems Incident to our Civilization" -- borrowed a phrase used 125 years ago by school founder Joseph Wharton in his directive for business education.

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Pursuing Partnerships

The search for new models to help the world's poorest people is perhaps most evident in the healthcare sector where the HIV/AIDS crisis has drawn attention to the suffering of millions of individuals who live without basic medical treatment, according to speakers on a panel titled, *Public-Private Partnerships: Emerging Solutions for Solving Global Healthcare Challenges*.

Hannah Kettler, program officer in global health strategies with The Bill & Melinda Gates Foundation, said the organization has spent \$6 billion in the last five years to improve healthcare in the poorest countries, but is constantly searching for new ways to spend its money more effectively. The foundation is a classic non-profit, providing donated funds to the needy through grants to other organizations that run programs, said Kettler, who noted that "our success depends on our grantees." Increasingly, the foundation's grantees are pursuing partnerships with other organizations, including government, the private sector and other non-profits.

"We see that many times there is not only one solution. Solutions depend on a combination of skill sets, but also different cultures and organizational strengths," Kettler added. "The idea of pulling together the private sector with the mission of the public sector, civil society and the advocacy community underlies a lot of grant-making we do."

According to Melinda Moree, a Gates grantee and director of the Malaria Vaccine Initiative (MVI), inclusion of the private sector is crucial in global healthcare. "For many years, the public sector said, 'You should make products for poor countries and give them away or sell them for low prices. That might have made people feel good, but it wasn't getting us products.'"

Around 2000, she noted, governments began to realize that if they wanted to help their people, they would have to find ways to pay for medicine rather than wait for donations. As a result, governments and aid organizations began to partner with pharmaceutical companies. The Malaria Vaccine Initiative has a complex relationship with GlaxoSmithKline that appears to be showing results against malaria infection in Mozambique. The partnership took a year to negotiate, she said.

The two sides agreed on how much MVI would pay GlaxosmithKline upon completion of certain milestones in the vaccine development process. The partners also laid out a structure for joint management and decision-making. Both sides tried to focus on what they did best. For example, GSK took the lead in guaranteeing the drug would not have serious side effects, while MVI worked with its network to make it easier for the company to set up clinical trials in Africa. Finally, the partners established a specific framework on pricing and supplying the vaccine.

In addition to working with drug companies, The Malaria Vaccine Initiative has developed partnership models for academic and government research projects. "They can do some of the basic work, but they can't turn it into products," Moree said.

She stressed that organizations working in global health can learn from profit-oriented businesses. "One of the great things about business is that it's about solving problems. If you don't solve the problems, you don't make money," she said, noting that non-profits can -- and do -- continue on for years receiving grants without solving the problem they set out to alleviate. "It's not about the mechanism. It's about focusing on the problem. Then move on to the next problem. There's no shortage."

Wendy Taylor, executive director of Bioventures for Global Health, offered another perspective in the for-profit debate. Corporate executives are often eager to help find solutions to global health problems, but are prevented from doing so because of their responsibility to investors to generate returns, she said. The dilemma is more troubling for biotech firms than traditional drug makers because most biotechs have enormous potential to generate new treatments, but many have not yet begun to turn a profit. "CEOs tell me all the time, 'I would love to help, but it would be irresponsible for me to use our resources,'" said Taylor. "We need to change that."

By identifying new markets CEOs have not considered, her group can get companies to help develop products for the world's poor. Biotechnology companies, she points out, don't necessarily need a \$1-billion blockbuster drug to support massive sales and marketing operations the way traditional drug companies do. As a result, they can make money on a drug with sales of only \$200 million to \$400 million in the developing world. For example, her group has done an analysis of the market for a tuberculosis vaccine that indicates the product could reach \$700 million in sales a year. "That would be an attractive opportunity," Taylor said.

Perhaps companies could partner with firms in developing nations where the enormous costs of development, including clinical trials, would be cheaper, she added, noting that in other cases, companies need to work with the public sector to develop new financing models. She pointed to the idea of guaranteed markets in which governments pledge to provide set payments to companies that develop new treatments. The G8 nations are considering a pilot project to test the effectiveness of a so-called "advanced market commitment."

Satish Reddy, chief operating officer of Dr. Reddy's Laboratories, an Indian pharmaceutical company which has provided generic treatments for HIV/AIDS patients in the developing world, said his company is transitioning to devote more resources to discovering its own novel medicines. The change in strategy comes as India moves into compliance with global rules on intellectual property.

According to Reddy, finding ways to provide low-margin medicine to the poor and fund the company's new investment in research was a challenge for management. To cope, the company developed partnerships with venture capital firms to take a role in financing its older products through royalty deals. On the research side of the business, it formed a partnership with venture capitalists to create a separate company, Perlecan Pharma Private Ltd.

Dr. Reddy's has also developed a model to reach distant rural markets with some of its older,

less-profitable products. It created a separate division to work with local entrepreneurs who sell the products in territories far from the larger cities and towns where Dr. Reddy's is established. "We tell them, 'Don't touch the main markets, but here's your opportunity,'" Reddy said. "The logistics are mind-boggling, but we have made a beginning and may expand on that model."

He was not optimistic about partnerships with government in healthcare. "The public sector just doesn't work, that's very clear. We don't want to partner with the government. We don't believe they have the infrastructure to do it."

30,000 Doctors vs. 300

Aside from the difficulty in funding research and developing cures for the developing world, the healthcare delivery system -- everything from doctors, hospitals and trucks to bring medicines into villages -- also posed challenges, panelists said.

Jeff Butler, chief executive of BroadReach Healthcare, a Virginia for-profit consulting firm that is developing healthcare delivery systems in Africa and other developing regions, said the HIV/AIDS crisis has focused largely on pharmaceutical development. It has also raised awareness about the lack of basic healthcare systems to deliver the drugs. "We view HIV/AIDS as an enabler to broader health systems' development. All the money and attention that is paid to this particular disease segment can be used effectively to build a foundation for primary care and disease management of other chronic conditions."

One idea is to leverage private healthcare systems already in place, said Butler. For example, in South Africa, half the hospital system is privately controlled while half is government-run. Yet only 10% of the population can pay for care in the private system. BroadReach is attempting to develop social insurance funds that would help pay for poor clients to use excess space in the private system.

The biggest problem in providing healthcare to developing nations is a shortage of human resources -- trained doctors and nurses to monitor delivery of medications and provide follow-up care. For example, he said, Florida and Mozambique both have populations of about 19 million. Florida has 30,000 doctors, while Mozambique has 300. Mozambique will never be served with a Western-style model of care that is directed by doctors, Butler noted. "We have to define paradigms to create new healthcare workers, nurse practitioners, traditional healers and midwives."

He also called for incentives that would encourage for-profit organizations to enter the search for solutions to social problems in the developing world. "Over the last 40 to 100 years of development assistance, we have somehow come to the paradigm that development assistance and social impact should be a non-profit venture. I would like to challenge that assumption." He gave the example of a major bridge in New Orleans that was destroyed by Hurricane Katrina. Government officials did not call on a non-profit organization to fix it. They sought out competent contractors in the private sector. "We need to break this paradigm of not providing market incentives for talented organizations to focus on some of the greatest public health challenges the world is facing."

"A New Level of Action"

During a keynote address, Raymond Gilmartin, the former chief executive of Merck, explained how the drug company became involved in two social-impact campaigns -- providing antiretroviral treatment to HIV/AIDS patients in Africa and supporting a Medicare drug benefit in the United States. Initially, he said, both causes appeared to conflict with the best interests of shareholders.

He recalled that in 2000 the drug industry was under siege by activists and politicians who were threatening to revoke global intellectual property regimes. The threat was based on concerns that pharmaceutical companies were using those protections to prevent generic manufacturers from offering life-saving antiretrovirals to needy patients.

Merck was already selling at a discounted price to poor nations, but Merck staff urged Gilmartin to do more. He approved a joint project with the Gates foundation and the government of Botswana to provide prevention, education and anti-retroviral drugs in the country, which has an HIV infection rate of over 40%. Patients who are given drugs have a sense of hope, which is encouraging more people to be tested, he said. In turn, that makes it easier to prevent transmission.

For years, Merck had participated in standard corporate giving programs, including science education, making drugs available at a discount for poor patients, and backing community projects where Merck had facilities. "AIDS in the developing world spurred us to a new level of action," said Gilmartin. Taking steps in Botswana muted activists' calls for an overthrow of the intellectual property regime, which is the root of the pharmaceutical industry's profit structure.

At about the same time, U.S. senior citizens were calling for a drug benefit within Medicare. The drug industry, as a whole, was opposed. Drug makers feared the benefit would lead to government price controls on drugs that would eventually limit corporate profits and shareholder returns. Gilmartin was among the first drug company leaders to back proposals for a Medicare benefit, as long as it would be administered by private insurance plans, not the government. Eventually, Congress approved such a plan.

"Proposals to cut intellectual property protections and create de facto price controls in the U.S. would have caused Merck and its shareholders real harm. Rather than lobby against such ideas, we believe we can play a constructive role," he said. "A demonstrably better solution is worth a thousand lobbyists."

According to Gilmartin, goodwill generated by Merck's corporate behavior in Botswana and during the debate over a Medicare drug benefit helped weigh against criticism of the company's handling of its pain-killer Vioxx, which has been found to cause heart problems in some patients. "Years of responsible behavior serve us well at this point. There is no doubt in my mind that traditional corporate philanthropy is important, but I also believe that the times in which we live suggest there are occasions when business should go beyond philanthropy."

Limiting Grants to Non-profits

For-profit startups may be able to meet some needs in the social-impact sector, but they run the risk of conflict between providing investors with returns and curing social ills, according to speakers on a panel titled, "Innovative Models for Supporting and Growing Social Enterprises."

Nir Tsuk, director of global fellowship at Ashoka, the global non-profit organization that provides grants to social entrepreneurs, said his group does not back for-profit endeavors. "The basic idea is that so many venture capital institutions support for-profit entrepreneurs. We would like to support the non-profit ones to balance the picture." He noted that there are social concerns that defy a profit-making model. For example, he said, it is impossible to imagine a for-profit business model that would support an Ashoka program dealing with incest in middle class Indian families.

Anne Marie Burgoyne, portfolio director at the Draper Richards Foundation in San Francisco, which funds start-up social entrepreneurs, also limits her grants to non-profits. "I truly believe you can only wear one hat. You should be mission-based and careful that you don't skim off resources from those you serve."

Burgoyne said social entrepreneurs should weigh whether their businesses can return as much to investors as for-profit enterprises. Social causes, she said, might be better served by investors who make high returns in for-profit ventures that are not socially oriented and then donate that money to non-profits.

She also said for-profit social entrepreneurs must manage the expectations of their investors without

compromising their social mission. Another consideration is employees. Workers are often willing to settle for lower salaries if they feel they are benefiting society by working for a non-profit.

Patrick Fitzgerald, president of RecycleBank, a Philadelphia for-profit company that encourages recycling, said non-profit ventures often lack the commitment and focus of a for-profit enterprise. He acknowledged there is a balance between for-profit organizations and social-impact groups like RecycleBank, which provides households with radio frequency devices to measure the amount of material they recycle each week. Households then earn coupons to spend at participating retailers based on how much they recycle.

Non-profits are always in danger of falling on the budget chopping block, he added. "We find a lot of institutions that say the environmental part of their program is just there so shareholders can feel good about it and nobody really cares if it's generating a profit or not. I view that as not sustainable. Somewhere along the line someone is going to cut that program."

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