

Interview: Joubert Krugel - Head of Life Sciences Africa, KPMG, South Africa



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The head of KPMG's life science division in Africa, Joubert Krugel, discusses the current state of South Africa's healthcare system, the imminent trends taking place, and how the business community can improve the nature of collaboration with public stakeholders to increase widespread access to quality care in the country.

How would you evaluate the current state of healthcare in South Africa?

Although I've seen a lot of progression in terms of investing more in the public sector, the country still faces the legacy of imbalance between private and public sectors. The balance for healthcare spending has improved in the past few years, but, considering that the public sector caters to approximately 45 million people, compared to the 8.5 million in private, we still need a greater focus on improving the quality and access to healthcare in the former. More from a life science point of view, I've seen clients shift their long-term strategic focus to the public sector, as the necessary infrastructures, processes, and payment mechanisms are currently under development as part of National Health Insurance (NHI) and will reach materiality as time progress. That being said, however, there's also a risk associated with doing business in this sector, especially in terms of payment delays. Under the minister's ambitions, though, there's a greater focus on strengthening those systems—further incentivizing companies to diversify into the public segment.

What type of challenges has the country's dual model healthcare system created for your clients?

The private sector faces similar challenges to the private sectors in the US and Europe. There's a concern around the rising cost of healthcare and prices of new medicines entering the market. We've seen the payer environment play a more active role with the implementation of reimbursement protocols, formularies, and risk-sharing agreements— invariably placing more pressure on suppliers. Payers are the first port of call with regards to driving prices of medicines and medical devices down. However, that only constitutes a small part of the cost drivers. In the South African environment, we've seen a stabilization in medicine prices with the introduction of Single-Exit Pricing (SEP), but at the same time, a rise in hospital and specialist costs, and an increase in administration expenses for medical schemes. One of the key factors contributing to this is a public system that has deteriorated over time, and as such, causing a movement of healthcare professionals into the private sector. Our general practitioner base has also been diminished to a certain extent. Considering that their role as primary givers of health has partially diluted, many patients bypass family doctors and directly seek hospital or specialist care—further driving the costs of secondary and tertiary health services. Sequenced approach in terms of treatment is imperative in managing the costs associated with the country's healthcare system. To this end, we need to look at ways we can strengthen our basic general practitioner, pharmacist, and nurse base to provide primary healthcare services, and lessen the burden on specialist care.

Is the current model sustainable in your opinion?

I do not believe it is. We need to see a greater degree of collaboration between public and private stakeholders and encourage knowledge transfer to strengthen the overall system. We need to maintain the world-class standard of care in private sector, while also finding ways to diminish the increasing costs. It will take an effort from both sides to effectively service the greater majority of the population that doesn't currently have proper access to quality healthcare and medicine. Whether National Health Insurance (NHI) is the one-size-fits-all solution to our current challenges is yet to be confirmed, but I do believe it is at the very least an actionable step in the right direction. South Africa is a unique country that requires a specific model that is tailored to the needs of South African citizens. We can certainly borrow and learn from other parts of the world, but we'll need to define the parameters that work for us, as a country.

Given the Minister's ambitions with NHI, how will we start to see the healthcare landscape in this country evolve? And what are the key considerations for companies looking to adapt to these changes?

Traditionally, for life science companies, we've seen on average of 80 to 85 percent of their businesses being generated from the private sector—which I base on personal experience, having worked with, and for a number of multinational companies. The higher pricing schemes applicable in the private sector typically allows companies to cross subsidize and present lower prices to the public sector. Whether it's concerning a local or multinational company, long-term commercial success will largely be derived from involvement in the public sector based on the number of people, when the NHI system is implemented successfully. Companies can certainly tailor a niche range of products for the high-end private insurance market, considering the existence of a more affluent demographic among the South African population. I do however suggest that companies adopt a broader and much more affordable product portfolio to cater to the masses and reap in the benefits of volume-based sales.

That being said, however, I recognize that it's a two way street—it cannot just come from industry. Government needs to also create a more conducive environment and put the necessary incentives and systems in place for companies in order to promote investment in public sector business. On the communicable diseases side, we've seen challenges with the government allocating ARV tenders to certain companies and then subsequently experiencing stock outs, impacting patients. On the other hand, even for local manufacturers, it's difficult to accurately forecast tenders, while also accounting for exchange rate fluctuations. At the end of the day, there needs to be more interaction and discussion in this area to create greater transparency, and also a greater appreciation for the challenges faced on both sides in order to truly meet in the middle.

Although South Africa has seen the rise of local champions such as Aspen and Adcock Ingram, the country still heavily dependent on imports to meet domestic demands. What key steps does the country need to take in order to cultivate a stronger local manufacturing base?

Indeed, the country is too heavily dependent on imports—a problem that starts from APIs all the way through to finished product, and extends beyond South African borders to the rest of Africa as well. As such, we've seen the African Union pursue a pan-African pharmaceutical plan to stimulate local manufacturing more and bring existing manufacturers in line with globally accepted Good Manufacturing Practices (GMP) standards. Countries such as Ghana, Nigeria, or Kenya have a wealth of local manufacturers, but they all focus more on OTC and consumables, and not all are complying with global GMP standards. In the South African context, we need to get better alignment amongst government departments (incl. Department of Health, Department of Trade and Industry, Treasury, Department of Science and Technology to mentioned a few), to collaborate

and jointly look at creating a more conducive environment (e.g. through tax incentives) for companies to setup local manufacturing plants. They'll also need to address labour issues, which is a big concern in terms of labour continuity. The unions currently exhibit too much power—creating uncertainty and risk with regards to continuous supply. Pharmaceutical companies simply cannot afford to have problems with consistent supply and labor engagement, as robust supply chains are critical to successful operations.

But, I believe it can be done. For example, we've seen economic zones established in different parts of the country around motor manufacturing in East London, Port Elizabeth, and Pretoria—allowing companies related to the industry to stimulate and support each other, especially with the help of tax incentives. Such zones seamlessly align with the SADC agenda, which covers 15 of the most southern countries in Africa, and focuses on stimulating broader economic growth and local manufacturing of medicines, and, in turn, healthcare reform to help tackle the continent's high burden of disease and limited access to quality medicines. Currently, Sub-Sahara Africa constitutes approximately 11% of the world's population, but carries 24% of the world's disease burden, and attracts less than 1% of the global funding in healthcare—a complete imbalance. As such, SADC is currently assessing the regions current local medicines manufacturing capacity—the Aspens, the Adcock's and others — to determine how they can put the necessary economic incentives in place to grow this base, which will have a direct impact on the economy, health of the population and local manufacturing. In the long run, the SADC region aim to become self-sufficient and eventually engage in more export activities. Though, this is a two way street, and to achieve these goals definitely requires greater communication and collaboration between public and private sectors. We also need to take a look at specific areas in the economy such as infrastructure, regulation, and even education to improve the skill base of local talent. Clearly, there are quite a number of broader social issues that need to be addressed before we can move the pharmaceutical industry forward. Ultimately, the government holds the most power, and if they can align the necessary platforms, things will start to fall in place.

Lagging behind in terms of value, and growth, what lessons can the medical device industry takeaway from pharmaceuticals - considering the imminent developments happening in this space?

In South Africa, we have a number of multi-national manufacturers present, ranging from providing a wide range of products to specializing in different niches—such are orthopedics or cardiac rhythm disease. We also have a number of local distributors present that partner with global companies for knowledge transfer and technology development. I believe the medical device industry has learned

from pharmaceuticals in the past few years in terms of upfront partnership models that proactively engage government and private sector stakeholders. As KPMG, we performed an economic impact assessment of the medical device industry on the South African economy, covering metrics such as: the contribution to GDP, implication of tax incentives, the industry's effect on job creation, and other relative indicators that resonate with government stakeholders and highlight the positive impact the industry is making on the country's economy. Due to the complexity of the technology, the medical device sector is currently, and will continue to be, reliant on imports to meet domestic demand. But I believe if the right conditions are in place, there is no reason why medical device companies can't establish more complex and value-adding manufacturing capabilities in the country, such as we've seen with the automotive or metals industries.

What are your ambitions for this sector's progression in the next three to five years?

My work allows me to have a direct influence in adding value to clients, and businesses across the industry, and in the process add value to patients through the positive impact that our clients make in South Africa. Based on my experience working within both the pharmaceutical or medical devices side of the industry, the key objective for life sciences players operating in these segments is providing access to medicines but also generating sales and improving the bottom line to ensure a sustainable business. Some companies unfortunately have a short-term approach and only focus on meeting annual budgets, maximizing profits any way possible, even if it is to the detriment of the other stakeholders in the broader health system. I'm a firm believer of achieving annual budgets but by pursuing optimum profit and ensuring long term sustainable business. From my point of view, I believe that this can only be achieved through greater industry collaboration and participation—banding together as a collective so that everyone can benefit from their involvement in the healthcare industry. I believe that all industry stakeholders should jointly work towards achieving better quality healthcare outcomes and access to medicine and devices for patients, while also simultaneously promoting overall sustainable growth. It's been a privilege working in this industry for many years and familiarizing myself with the key voices and leaders, and I can only hope to maintain as active of a role moving forward—while also refining my own knowledge base alongside the sector's own development.

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