

Report on Financing Local Pharmaceutical Production in Africa

THE PANDEMIC HAS REVEALED CRITICAL WEAKNESSES IN THE GLOBAL PHARMACEUTICAL SUPPLY CHAIN, PARTICULARLY WITH RESPECT TO VACCINES.

Focusing on new approaches, the African continent is a prime candidate for benefiting from regionalization of production and procurement of pharmaceutical products. Regionalization would help solve the problem of limited markets.



Improving the local production situation in Africa entails integrating the market so that producers have a larger user-base for their products. Market integration involves removing barriers to trade among African countries, as well as streamlining the regulatory process to reduce the number of approvals needed for each product throughout the Continent.

PUBLIC HEALTH SECURITY

A more pro-active approach to encouraging pharmaceutical production can be grounded in the need to defend the health security of the public. With local pharmaceutical production as a priority, governments should engage the financial levers important to developing and sustaining localized industry.

At the firm level, individual companies require better access to the capital needed to acquire raw materials and equipment, to fund construction and other project costs, and to operate at scale. National government treasuries, and the African Development Bank (among others), should facilitate access to capital for local producers.

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NEW APPROACHES

Transforming political engagement

The COVID-19 pandemic should serve as adequate impetus to transform local production of pharmaceuticals into a governmental priority. Government commitment at a high level is required to engage the financial levers that will support localization of production.

The concept of **public health security** should be employed by governments to elevate public perception regarding the importance of preparing for future disease outbreaks. While for each country and government “national” public health security is likely to occupy the top priority, for the African continent secondary attention to “regional” public health security may also be important.

Public health advocacy groups may play a helpful role in this transformation by applying pressure to governments to raise the profile of local production.

Vaccines

For vaccines the development of a sustainable business model from a private investment standpoint almost certainly entails some form of advance purchase or guaranteed offtake commitment, or continuing subsidy, to induce investment. Alternatively, governments may themselves invest in vaccine manufacturing facilities.

Regional pooled procurement commitments would be a useful tool for supporting the construction and operation of vaccine manufacturing in Africa. Funding from multilateral institutions such as the World Bank and other development banks will also be important.

Regional production hubs and pooled procurement

Overcoming the limitations presented by limited infrastructure might be accomplished by concentrating pharmaceutical production in designated areas and investing in surrounding infrastructure for those areas. Given the scale of the potential market for pharmaceutical products in Africa, there may be space for 3 or 4 regional production hubs located on different parts of the continent.

Just as regional production hubs may help achieve economies of scale and the prospects for competing effectively, establishing regional procurement mechanisms would pool and help to create a source of continuing large-scale demand. This should facilitate reducing prices, again to better compete with non-African producers.

Sustainable business models

Particularly outside the vaccine sector, successfully operating a pharmaceutical manufacturing facility means addressing a market with sufficient demand to generate revenue and profits. Alternatively, or as a supplement, governments may provide direct subsidies, guaranteed offtake agreements, tax credits, local production pricing premiums, and other measures to substitute for market demand.

Building sustainable production in Africa may well include plans for exporting, bearing in mind that shipping to the high-income markets requires compliance with stringent GMP.

The inability of financial markets to respond rapidly to currency needs is a truly critical limiting factor for local production in Africa.



NEW APPROACHES

The social impact investor market

African governments should consider a program to encourage sovereign wealth funds and other financial asset managers to invest in local production on the African continent as a way to accomplish important social goals. To facilitate this objective, there should be some type of backstop or guarantee of the social impact investments within reasonable parameters. The African Development Bank may be helpful in establishing mechanisms for this purpose.

At the firm level

Individual firms face challenges ranging across the spectrum of identifying the products to be produced, the technologies to be employed, the sources of raw materials, the suppliers of equipment and software, securing land and permits, undertaking construction and validation of processes, obtaining regulatory approval for market entry, commencing manufacturing and distribution, establishing a reputation in the marketplace, and expanding operations.

The availability of a dedicated team of finance experts in the pharmaceutical sector, whether under the auspices of the African Development Bank, or another institution, may assist local producers in addressing the various financing challenges along the way. An African Development Bank program for guaranteeing commercial debt would aid in lowering the cost of capital, particularly for smaller pharmaceutical manufacturers.

In addition, African entrepreneurs should be encouraged to pursue collaborative arrangements with foreign partners that have requisite technologies, experience dealing with regulatory compliance, and potentially financial capacity. There should be a dedicated institution to assist with negotiating technology transfer and joint venture arrangements in terms of legal and regulatory expertise.

If the vision of regional production hubs can be realized, there may be possibilities for incorporating

associated centers of technical expertise that could provide assistance for multiple producers.

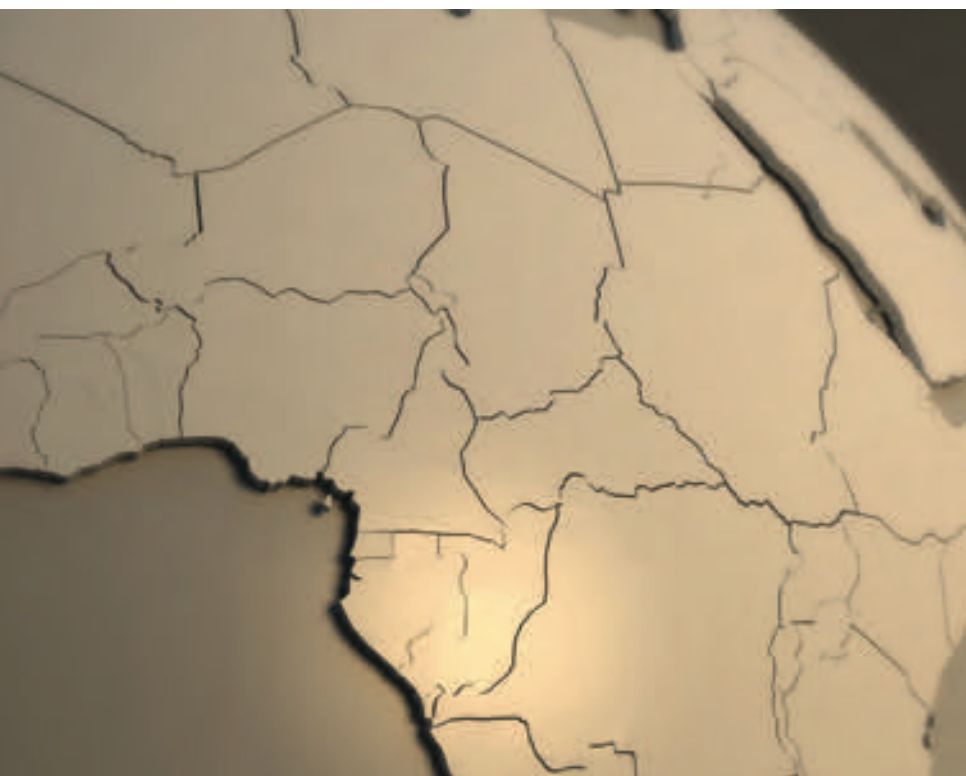
Opportunities for advocacy

At the high level of political commitment, government authorities should be persuaded to prioritize local production of pharmaceuticals as a matter of public health security, engaging the financial levers to support such a commitment. At the level of industrial policy, the African Union should be encouraged to engage in concrete planning for regional pharmaceutical production hubs, and associated infrastructure and centers of technical expertise, and to form regional pooled procurement mechanisms to aggregate demand, allow for more effective bargaining with suppliers, and support regional hub manufacturers.

Support for effective implementation of the African Continental Free Trade Area in terms of reducing barriers to intra-Africa trade in pharmaceutical products would improve the market situation. Similarly, continuing support for efforts to integrate the African regional regulatory structure for pharmaceutical products would accelerate access to medicines. Governments should be encouraged to support the establishment of joint ventures with foreign technology partners that can facilitate the establishment of local manufacturing facilities.

Advocacy groups should encourage global asset managers, including private investors, insurance and pension funds, and sovereign wealth funds to view local production of pharmaceuticals in Africa as social impact investment, and encourage the African Development Bank and other financial institutions to provide some forms of backstops or guarantees for these investments to offset risk.

Foundations should be encouraged to develop a transparent platform which could provide information to African manufacturers with respect to opportunities for financing and expertise for pursuing their objectives.



Despite an international financial system “awash” with capital seeking investment returns, very little funding has been directed to African pharmaceutical manufacturing, whether in the context of the ongoing pandemic or otherwise.

There are many unmet pharmaceutical needs in Africa. COVID-19 is an ongoing crisis, but Africans also suffer from coronary disease, cancer, diabetes, neurological disorders, immune deficiency disorders, and other treatable conditions. Supply of treatments comes predominantly from outside the continent.



Few African producers are in a position to make the investments needed to bring factories up to international stringent GMP compliance, and government or other external support is needed to accomplish this objective. Without stringent GMP compliance the market in Africa will remain dominated by foreign suppliers.

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Read the Report Opportunities, Constraints and Critical Supports for Achieving Sustainable Local Pharmaceutical Manufacturing in Africa: With a Focus on the Role of Finance, Final Report, 18th March 2021

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