

THE FREE MARKET FOUNDATION
of Southern Africa

progress through freedom

CHAIRMAN'S ADDRESS
TO THE
ANNUAL GENERAL MEETING

DIRECTORS' REPORT
TO THE
COUNCIL MEETING

AUGUST 2007

Johannesburg

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Chairman's Address to the Annual General Meeting

South Africa: Time to Set the Economy Free

The fundamental objective of the Free Market Foundation (FMF) is to promote human rights from a classical liberal perspective. As a policy organisation, or think tank, it has the task of proposing and promoting ideas that, if adopted, will advance the economic and civil liberties of SA's people as well as their general welfare.

As its name denotes, the FMF is unequivocal about the course that needs to be followed in order to bring about a better life for all. The evidence is overwhelming. Countries that implement policies consistent with economic freedom and free markets not only prosper but also improve all other aspects of the lives of their people.

Economic freedom and its alternatives

The Foundation will on 4 September launch the South African edition of *Economic Freedom of the World: 2007 Report* (EFW) in Johannesburg and Cape Town. This year's report contains dedications to Milton Friedman, who for two decades guided the development of the objective measures the report uses to determine the levels of economic freedom of countries. Publication of EFW resulted in a steadily increasing volume of research that uses its data to analyse the consequences for countries of having more or less economic freedom. It also led to the development of a competing publication, the annual *Economic Freedom Index*. Political leaders worldwide, recognising the benefits of increased economic freedom as a result of the research findings, are changing their policies and assuring better lives for their citizens.

Socialism, communism, national socialism, fascism and all other variants of collectivism have all failed to improve the lives of the people upon whom they have been imposed. Wherever these ideologies have held sway they have had similar results; authoritarian rule by a clique with supreme centralised power that allows no dissent and rapidly forgets the ostensible meaning of the 'by the people for the people' slogan that brought them to power in the first place. In the hands of collectivists, democracy is a tool to be manipulated until ultimate power can be grasped. Wherever autocratic power is achieved, the most serious casualty is human rights.

Democracy and devolution of power

Churchill was not needlessly critical when he said: 'Many forms of government have been tried, and will be tried in this world of sin and woe. No one pretends that democracy is perfect or all-wise. Indeed, it has been said that democracy is the worst form of Government except all those other forms that have been tried from time to time.' SA wisely adopted a Constitution to protect our democracy from assaults by those who seek unlimited power unconstrained by checks and balances.

It is therefore with concern that we note the proposals for a reduction in the number of provinces; the tampering with the independence of the judiciary; the questioning of the limited level of devolution of power that currently exists in our Constitution. We have already had a vast centralisation of power at the local authority level, ostensibly to increase efficiency but which has had the opposite effect. In fact, the questioning should go in the other direction, towards giving the people a greater say in decisions that most closely affect them.

The people are far safer from despotic action with greater rather than less devolution of power. The more centralised the decision-making, the less influence the people have over decisions that affect their lives. This is not a party political matter. Rather it is a matter that should be of grave concern to all South Africans, whatever their political persuasions. It is an issue that will have repercussions for future generations.

Devolving political decision-making power has many benefits. The core issue is not merely having a multiplicity of regions and local governments. The real benefits are achieved when policies that rely on the advantages to be gained from diversity and the demonstration effect replace the inefficient and unworkable notion of uniformity. When one community, region or province can emulate the successes of another, or perhaps more importantly, can avoid the errors of others, everyone benefits from the existence of the demonstration effect provided by real life examples of what works and what does not.

Proposals for greater centralisation of power to rectify current inefficiencies in administration are totally without merit. Successful large entities have found that they achieve *greater* efficiencies from *greater* devolution of decision-making, not less. They find that they operate most efficiently when they establish broad policies at the centre but leave decisions on implementation to those at the coalface, while monitoring events closely and taking swift corrective action when necessary. What they do not do is appoint the wrong people to implement policy and then blame the devolution of decision-making for the poor results.

Constitutions are not adopted to deal with short-term inefficiencies. They contain checks and balances to protect the people for decades and centuries from the machinations of politicians who wish to transfer power from the people to themselves. Almost without fail, it is collectivists who hold the view that the people are neither capable nor to be trusted with the most precious of human rights in a democracy; the right to make decisions about their own lives. And they do this while holding themselves out to be the foremost champions of democracy.

Closely allied with democratic rights is the right to enter into voluntary exchanges with others, free of third party intervention, a condition that prevails wherever there is greater economic freedom. An accumulating body of research shows conclusively that increased economic freedom results in higher economic growth and an improvement in all the United Nations' measures of human welfare. In other words, SA can increase the human rights of its citizens by increasing economic freedom in the country.

The economy

Abolition of the race laws gave SA an economic freedom shot-in-the-arm. Black people were freed from the centuries-old constraints that had prevented them from fully utilising their abilities and talents to earn incomes. These beneficial results are visible in the economic growth figures. But, so far as economic freedom is concerned, SA's *Economic Freedom of the World* rating has remained static with a two-point decline in our rating last year that cost us 16 places in the world rankings, from 37th down to 53rd, partly because of the rating decline and partly because other countries are becoming more free and are skipping past us.

Does it matter that other countries are overtaking us in the economic freedom rankings? Yes, it does, because the world's investors take these ratings and rankings seriously. If we want foreign investment SA must become more and not less free. We must move up and not down the rankings if we want investment, whether foreign or local.

Local and foreign investors factor the effects of government policies and actions, and all other prevailing conditions into their decisions and planning. The factors that affect the economic freedom rating and ranking, whether positively or negatively, are therefore matters that are of great importance to investors in making their investment decisions.

Black economic empowerment (BEE)

It is possible to be totally in favour of rapid economic transformation yet be disturbed by developments relating to BEE. First, the transformation methods that have thus far been adopted are not necessarily the most efficient in bringing about the required transformation, or destined to have the most positive economic outcomes for the total population, especially the poor. Second, there is an inordinate accent on transferring assets from whites to blacks that appears to totally neglect the need to grow rather than re-divide the economy and fails to recognise the capability of SA's black citizens to start and build their own businesses. In fact, successful black people who do not owe their success to wealth transfers appear to receive inadequate recognition for their achievements. Thirdly, while there is profit to be made from racial differences there will, as in the case of apartheid, be a political incentive to perpetuate racial divisions notwithstanding their destructive economic and social consequences.

Perhaps in dealing with this difficult issue we should bear in mind the wise words of the Rev. William J.H. Boetcker, who in 1916 wrote:

The Cannots

You cannot bring about prosperity by discouraging thrift.

You cannot strengthen the weak by weakening the strong.

You cannot help the wage earner by pulling down the wage payer.

You cannot further the brotherhood of man by encouraging class hatred.

You cannot help the poor by destroying the rich.

You cannot keep out of trouble by spending more than you earn.

You cannot build character and courage by taking away man's initiative and independence.

You cannot help men permanently by doing for them what they could and should do for themselves.

Recognising the sensitivity of this subject and the emotions it evokes, it is incumbent on those of us in the FMF who dearly wish to see the economic disparities between the races disappear as rapidly as possible so that a truly non-racial, affluent and unified nation can emerge from our dreadful past, to offer potentially less divisive alternatives. Some of the proposals already made are:

- A building plot for every homeless family from government land holdings;
- Distribution of the shares of state industries to the people (a democracy dividend);
- Sale of state properties to finance affirmative initiatives;
- Special tax benefits and regulatory exemptions for new and small businesses; and
- Affirmative advancement initiatives through the national budget and not through interference in the ownership and management of existing businesses.

Unemployment

Our publications and articles have for many years expressed grave concern over our unacceptably high unemployment rate. Most of the unemployed are black and most are young. Having five to eight million South Africans unemployed has enormous long-term

social and economic implications. BEE is proving to do nothing for these unfortunate people and might even be exacerbating their plight.

The only way to reduce the number of unemployed is to increase the demand for labour and particularly unskilled labour. Worldwide it is small firms that employ most of the unskilled, young and old who do not fit into large firms. An FMF publication has suggested that the long-term unemployed should be given written temporary exemption from the labour laws to allow them to enter into contracts with employers (perhaps confined to small firms) on any conditions acceptable to both parties. Black-owned firms could be allowed to employ such exempted persons on a larger scale than other firms, providing an incentive for firms to be specially created to hire large numbers of exempted workers while at the same time providing an opportunity for the creation and growth of more black-owned firms.

Excessive regulation

Firms in SA are being smothered by regulation. The cost of compliance is so high that it tends to give large firms a competitive advantage over small firms and have a seriously detrimental effect on the establishment and growth of new businesses. In light of the need for rapid growth of new black-owned enterprises the current weight of over-regulation and compliance could be catastrophic.

There appears to be no recognition of the cumulative impact of regulation on business. Every piece of legislation or set of regulations appears to be dealt with in isolation. While legislators may consider that there is some form of merit in each piece that comes before them, even they would probably be appalled if all the applicable pieces were to be laid out before them at one time and the consequences thereof explained to them.

If this trend continues, the negative effect on the economy will become starkly clear. If the government wishes to see the economy growing rapidly enough to reduce the numbers of unemployed to what is considered a 'normal' level, it is essential for it to reign back regulation. The existing high level of regulation and compliance requirements will already negatively affect economic growth and further additions are likely to become an intolerable burden for the economy to carry.

Government surely does not wish to create competitive advantages for the wealthy at the expense of the poor, which is what excessive regulation does.

Conclusion

We in the Foundation look forward to the day when we will applaud with our fellow South Africans the creation of a vibrant and thriving economy where there will be fierce rivalry between competing suppliers of energy; telecommunications services; road, rail, air, sea and road transport and ports. Where there are internationally competitive low taxes; a statutory dispensation that leads to a high demand for labour; low levels of crime; low inflation through tight control of the money supply; true non-racialism (especially in the Law); and a marked absence of red tape. Under such circumstances we will join the top ranks of the economic freedom ratings, our young people will be employed, poverty will decline rapidly, and investors will beat a path to our door. That is the kind of South Africa for which our Foundation is striving.

BC Benfield
30 August, 2007

Directors' Report to the Council Meeting

The Foundation's strategy shift back towards what was necessary before the global paradigm shift from dictatorship and statism to democracy, and personal and economic freedom, has had to be intensified. It appeared after the collapse of international socialism, communism and non-democratic government, and South Africa's transition from apartheid anti-market authoritarianism to democratic capitalism, that the great battle of ideas had been won, and that what remained was for policy institutes to attend to the detail of implementing the new order. However, during the past three years, there has been an accelerating slide-away in which rhetoric and policies have increasingly reflected a fundamental failure to understand the nature, principles and practical benefits of a free society.

Such measures as the *Financial Advisory and Intermediary Services Act* (FAIS), the *National Credit Act* (NCA) and the *Consumer Protection Bill*, reflect a profound misconception of how markets work and the reason why free and effective competition under the rule of law is by far the best and cheapest way to protect consumers. The measures are reminiscent of the discredited idea of the *dirigiste* era of left and right wing interventionism of the last three decades of the twentieth century, to the effect that there is "market failure", and that it can be corrected by "government intervention". It appeared as if the world and South Africa had moved on to a more sophisticated appreciation of the fact that the problem of *government failure* is by far the bigger problem and that virtually all supposed *market failure* is, in fact, a direct consequence of intervention that distorts markets, usually for the benefit of elite vested interests at the expense of the country in general, especially the poor.

Accordingly, we at the Free Market Foundation have been generating, and will increasingly generate, literature on the basics of economics, from the fact that "there ain't no such thing as a free lunch" (TANSTAAFL) to the fact that freedom is indivisible, which means that every curtailment of economic freedom, such as the right of consumers to decide for themselves what to buy, how much credit to incur and what trade-offs there should be between price and quality, are directly and always reductions in personal freedom.

We are concerned at the Foundation about the degree to which there is declining appreciation for the paradox that ordinary civilians are presumed to be astute enough to make the "big decisions in life", such as who to marry, what career to pursue, how many children to have, how to raise them and how to manage their health, for whom to vote, and yet are considered to be in need of protection by Big Brother when they go shopping for the "little" things in life.

In Memoriam

On 2 July, Lyn Stidworthy lost her husband Craig to a ruptured aortic aneurism. Craig was a very positive individual and we wish to borrow something he wrote, to honour him, and also as encouragement to ourselves and others as we face the tasks that lie ahead of us in our attempts to play a role in making South Africa great. This is what Craig Stidworthy wrote:

**For the Memories
That are
Have Been
And are yet to come
We are the Creators of History
Make it live!**

Intellectual Property Rights in Emerging Countries

The Free Market Foundation and International Policy Network hosted an extraordinarily successful international conference on Intellectual Property Rights in Emerging Countries at the Sandton Convention Centre in Johannesburg on 14 August 2007.

Dr Phil Mjwara, Director-General, Department of Science and Technology, who is responsible for all government policy development in the science and technology sector in South Africa opened the conference. Prior to joining the Department, Dr Mjwara was a group executive in charge of research and development at the Council for Scientific and Industrial Research. Dr Mjwara plays a leading role in technology development in SA.

The first session was devoted to intellectual property as it relates to software, a matter over which there is intense debate worldwide. The second session covered the economics of IPR, the importance of intellectual property in music composition and proposed legislation relating to ownership and development of intellectual property from publicly financed research.

During lunch MacDonald Netshitenzhe, Director in the Department of Trade and Industry, whose responsibilities include intellectual property rights, spoke on the protection of traditional knowledge through the intellectual property system.

The third session was devoted to discussion of IPR relating to pharmaceuticals. The speakers covered the implications of IPR for innovation and investment, as well as their importance in relation to access to medicines in emerging markets.

The conference closed with a panel discussion on government software procurement. An important issue that has arisen in SA and other countries is the tendering processes involved in the acquisition of open source software as compared to proprietary software.

The programme and a few selected comments from speeches are reproduced below:

Programme

Welcome & Introductions

Temba Nolutshungu, Director, Free Market Foundation

Opening Speaker

Dr Phil Mjwara, Director-General of the Department of Science & Technology

- ❖ More and more developing countries are realising the importance of being part of the global intellectual property system
- ❖ Various studies, including those conducted by the OECD, strongly suggest a correlation between levels of R&D spend and level of innovation of a country; and that intellectual property can be used as a proxy for the level of innovation of a country
- ❖ As we discuss intellectual property issues in this forum, it is important that we start to educate the masses of our people about intellectual property matters

CHAIRMAN: Chose Choeu, Director: Law & Corporate Affairs, Microsoft SA

Session I – Chairman: Chose Choeu, Director: Law & Corporate Affairs Microsoft SA

Speakers:

Mark Lange, Senior Policy Counsel, Microsoft EMEA Law & Corporate Affairs

“Intellectual property strategies in a world of coexistence & co-opetition”

Microsoft's IP Strategy:

- ❖ Carefully manage the code that goes into products
- ❖ Secure protection for innovations
- ❖ License in additional rights and respect the IP rights of others
- ❖ License out patents to others on commercially reasonable terms
- ❖ Stand behind (MS) products with customer indemnification
- ❖ Promote effective IP law reform and enforcement

McLean Sibanda, Senior Patent Attorney, Innovation Fund

"Legislative framework in respect of IP from publicly financed research"

- ❖ At present there is little appreciation in SA of intellectual property as an instrument of wealth creation
- ❖ A dedicated fund is being established for the securing of intellectual property rights resulting from publicly funded research
- ❖ A proper framework is also being created with enabling legislation for the management of intellectual property arising from publicly financed research

Session II – Chairman: Chose Choeu, Director: Law & Corporate Affairs Microsoft SA

Speakers:

Leon Louw, Executive Director, Free Market Foundation

"The developing world's experience with IPR policy alternatives"

- ❖ Poor country dilemma – IPR transfers *revenue* from poor to rich countries ... and wealth, technology, skills, innovation, efficiency, resources to poor countries
- ❖ Piracy losses are highest in Western Europe \$10,630 and US \$7,289 but percentage losses are much higher in developing countries
- ❖ There is a direct correlation between IPRI rankings and GDP
- ❖ SA is 37th in the world on the Economist Intelligence Unit's IT Competitiveness Index
- ❖ SA is ranked 1st in Africa and 21st in the world according to GDP – at (PPP) US\$532,011 million
- ❖ Property=Prosperity, IPR=Property (by law) and Development coincides with IPR

Nicholas Motsatse, CEO, South African Music Rights Organisation

"The role of intellectual property industries in economic development and in enabling a broad base of economic participation"

- ❖ The core copyright industry that includes recorded music, music publishing and entertainment software is under threat because of the unauthorised use of download technology
- ❖ The biggest culprits are cell phone ring tone providers
- ❖ SA legislation has not kept up with developments such as new treaties under WIPO

Lunch Time Speaker:

Mr MacDonald Netshitenzhe, Director: Commercial Law & Policy, Department of Trade & Industry

"Traditional Knowledge"

Session III – Chairman: John McKnight, Partner, Spoor & Fisher

Speakers:

James Ringer, Managing Director, Eli Lilly

"Intellectual property implications for innovation and investment: A pharmaceutical industry perspective"

- ❖ New drugs account for 50-60% of increase in six-year cancer survival rates since 1975
- ❖ The cost of developing a new drug has risen from \$138m – 1975, \$318m – 1987, to \$802m in 2000
- ❖ SA has one of the longest drug approval times among developing countries, provides the shortest investment recovery period, and has a demanding regulatory environment

- ❖ Countries with weak IP protection receive less FDI and the investment they do receive is less technologically sophisticated
- ❖ At stake for SA – potential for increased investment in R & D, access to more innovative drugs, and increased eventual availability of generic drugs

Alec van Gelder, Network Director, International Policy Network

“IPRs, emerging markets and access to medicines”

- ❖ 45% of illnesses in LDCs is caused by poverty (malnutrition, indoor air pollution, poor sanitation)
 - ❖ Respiratory infection is the single biggest killer of children under 5
 - ❖ Diarrhoeal diseases is the 2nd biggest killer of children (1.8m deaths annually)
 - ❖ Vitamin A deficiency is implicated in 800,000 child deaths per year
 - ❖ Childhood diseases account for 5.2% of DALYS in LDCs
 - ❖ Respiratory infections are caused by burning dirty fuels indoors
 - ❖ Diarrhoea, a major killer, can be easily treated by cheap Oral Rehydration Sachets
 - ❖ Childhood vaccines are cheap and off-patent
 - ❖ Drugs also exist for malaria, HIV, TB etc
 - ❖ 98% of the WHO Essential Medicines List is off-patent
- Factors other than IPR reduce the availability of medicines to the poor
Price controls undermine differential pricing, thereby reducing price competition
Strengthened IP protection is an important aspect in improving healthcare

Session IV - Panel discussion on Government Software Procurement

Chairman: John McKnight, Partner, Spoor & Fisher

Speakers:

Leon Louw, Free Market Foundation

- ❖ Open source software is not an IPR issue, it relates to procurement policy
- ❖ It is a cost-benefit issue
- ❖ Applying a one-size-fits-all policy *cannot* be optimal
- ❖ Government needs variable support, know-how and support depending on the nature of the task to be performed and the skills available to perform it
- ❖ A blanket policy on software procurement would probably be unconstitutional
- ❖ The policy has to be “fair and reasonable” and involve public participation

Alec van Gelder, International Policy Network

Michael Thatcher, Regional Technology Officer, Microsoft Middle-East Africa

Policy should be neutral with respect to specific technologies or platforms that allow governments to choose the best alternative in a particular situation based on reasonable, objective criteria, which includes:

- ❖ Total cost over the projected life of the product
- ❖ Interoperability
- ❖ Reliability
- ❖ Vendor support
- ❖ Ease of use
- ❖ Security
- ❖ Warranties and indemnities for intellectual property claims

McLean Sibanda, Senior Patent Attorney, Innovation Fund

Closure and Thanks

Temba Nolutshungu

Presentations are freely available for download on our website
(<http://www.freemarketfoundation.com/Publications.asp?id=publications&data=51>).

IPR and economic growth

Governments of some countries have taken the view that there is more to gain than lose in disrespecting the intellectual property of originators of music, software, pharmaceuticals and other innovative products. Others recognise that the future prosperity of their countries is inextricably linked with building an innovative culture in which their citizens can gain secure rights in intellectual property. In order to establish those secure rights, it is essential that they also inculcate respect for the rights of foreign innovators.

India and China have changed their policies towards IPR, have adopted stricter protection laws, and are improving their policing of IPR piracy. The apparent reason for this change is that their citizens are developing innovative products and want protection of their intellectual property.

SA was ranked 21st out of the 70 countries measured in the *International Property Rights Index (IPRI): 2007 Report*, compiled by Alexandra C Horst, 2006 Hernando de Soto Fellow for the Property Rights Alliance partnered by the FMF and thirty five other institutes around the globe. SA's overall score was 6.4 out of 10, compared to Africa's regional performance, measured at 4.2.

The IPRI incorporates what are regarded as three core categories of property and property rights, which are regarded as central to the strength and protection of a country's private property system. They are the legal and political environment (LP), physical property rights (PPR), and intellectual property rights (IPR).

Grouping the countries in quartiles according to their IPRI rankings, the study found that the GDP per capita of the top 25% was \$32,994, the second \$15,679, third \$7,665 and the bottom \$4,294. These figures clearly demonstrate that respecting intellectual property rights is the path to prosperity.

A positive relationship not only exists between the overall IPRI index and GDP per capita but also with the individual categories making up the index. Countries with sophisticated legal and political systems and stronger physical and/or intellectual property rights protection benefit from higher economic well being. SA's scores in the various categories are: LP 5.8, PPR 6.6, and IPR 6.8.

Land Reform

The Free Market Foundation has long propagated crucial aspects of land reform that have, bizarrely, scarcely been mentioned in the public discourse. At last this is changing. In recent months there has been increasing debate regarding our two core proposals that (1) all land currently and lawfully held by black South Africans be summarily upgraded to unambiguous ownership at no cost and (2) that a small proportion of superfluous state land inherited from the apartheid regime be redistributed to black South Africans to ensure a fully owned plot of land for every homeless household, especially black women who were denied land rights in urban areas.

The African Heritage Foundation has had a number of debates on the matter; the Department of Land Affairs is considering an investigation into the availability of government land for redistribution starting in Mpumalanga and one of South Africa's major cities is considering a corresponding study in and around its metropolitan area. Tenure upgrade and redistribution of superfluous government land is one of the first policy issues highlighted by Helen Zille when she became DA Leader.

Black South Africans already hold 10 million parcels of land, which technically belong to the state. This means that there can be 10 million newly empowered black landowners in a single empowerment act that will be far more significant than anything else that has been proposed, literally at the stroke of the statutory pen. The only obstacles are vested interests in the status quo namely officialdom enjoying the power and status of managing and allocating land in historically black areas, and various professionals who benefit from needlessly costly red tape presently prescribed in law as a pre-condition for tenure upgrade. It is not at all clear why politicians, the media and land activists have not seized on the failure to reinstate land ownership for South African blacks more than a decade after transition.

Enterprise Africa!

The two-year *Enterprise Africa!* project, which the FMF has carried out in partnership with the Mercatus Centre at George Mason University, Washington DC, and the Institute of Economic Affairs, London, has completed its promised tasks. However, Mercatus and the FMF are producing further studies, which will be completed and published over the next three months.

In the last week of April FMF Directors, Temba Nolutshungu and Eustace Davie, visited the United States together with Shadrack Mabuza of Monsanto (who has played a major role in Monsanto's work with smallholder farmers in South Africa) and John Kasaona (Assistant Director, Integrated Rural Development and Nature Conservation, Namibia) to give presentations in New York and Washington on the projects studied by the *Enterprise Africa!* team. There were three events:

Fighting Poverty through Entrepreneurship in Africa

1. Panel Presentations at the Stern School of Business, New York

Start: Tuesday, April 24, 2007 05:30 PM

End: Tuesday, April 24, 2007 07:00 PM

Location: 5-50 Kaufmann Management Center
44 West 4th St., New York, NY, 10012

Part 1 - Featuring:

- **William Easterly**, Professor of Economics, New York University, and author of *The Elusive Quest for Growth* and *The White Man's Burden*.
- **Jeffrey Robinson**, Assistant Professor, Stern School of Business, New York University, and author of *Social Entrepreneurship* and *International Perspectives in Social Entrepreneurship*.
- **Peter Boettke**, Professor of Economics, George Mason University, and Director of Research, Mercatus Center

Part 2 - Featuring:

- **Karol Boudreaux**, Senior Research Fellow, Mercatus Center, and member of the Working Group on Property Rights at the United Nations Commission on Legal Empowerment of the Poor

Part 3 - Featuring:

- **John Kasaona**, Assistant Director, Integrated Rural Development and Nature Conservation, Namibia
- **Shadrack Mabuza**, Smallholder Team Member, Monsanto South Africa
- **Temba Nolutshungu**, Director, Free Market Foundation of Southern Africa

Part 4 - Question and Answer Session

2. Panel discussion with the Washington Press Club

Date: Thursday, April 26, 2007 – 09:00 to 10.30

Location: Washington Press Club Building, First Amendment Room
529 14th Street NW, Washington DC 20045

Panelists

Peter J. Boettke, Professor of Economics, George Mason University, and Research Director, Mercatus Center

Karol Boudreaux, Senior Research Fellow, Mercatus Center, and member of the Working Group on Property Rights at the United Nations Commission on Legal Empowerment of the Poor

Eustace Davie, Director, Free Market Foundation

John Kasaona, Assistant Director, Integrated Rural Development and Nature Conservation, Namibia

Shadrack Mabuza, Smallholder Team Member, Monsanto South Africa

Temba Nolutshungu, Director, Free Market Foundation of Southern Africa

3. Presentation to Congressional, Agency and Library of Congress Employees

Date: Friday, April 27, 2007 – 12:00 to 13.30

Location: 2168 Rayburn House Office Building (Gold Room), Capitol Hill

Panelists

Karol Boudreaux, Senior Research Fellow, Mercatus Center, and member of the Working Group on Property Rights at the United Nations Commission on Legal Empowerment of the Poor

Eustace Davie, Director, Free Market Foundation

John Kasaona, Assistant Director, Integrated Rural Development and Nature Conservation, Namibia

Shadrack Mabuza, Smallholder Team Member, Monsanto South Africa

Temba Nolutshungu, Director, Free Market Foundation of Southern Africa

While most regions of the world witness increased living standards and greater economic opportunity, Africans continue to face famine, poverty, and political corruption. Billions of foreign aid dollars spent by western governments have made little difference to the lives of ordinary Africans. Yet while western elites hold conferences on how best to redistribute wealth, unsung African innovators are quietly erasing the effects of poverty at the local level. This fresh perspective that solutions to Africa's poverty are not to be found in international aid bureaucracies but in Africa's entrepreneurs is the focus of *Enterprise Africa!*, a project which uncovers examples of successful entrepreneurship in Africa and shares them with policy makers and opinion leaders world-wide.

Recent Publications

Economic Affairs the Journal of the Institute of Economic Affairs (a partner in the *Enterprise Africa Project*) – Volume 27 No. 2 June 2007 –

contained a section on **Enterprise Solutions to Poverty in Africa** with articles by Peter J. Boettke, Karol Boudreaux, Jasson Urbach, Mwangi S. Kimenyi, James Tooley, Philip Booth, Linda Whetstone on African issues. The FMF's Jasson Urbach wrote *Development goes Wireless* which described how the introduction of mobile phones has helped to

alleviate poverty and improve the lives of the people of Botswana.

This special issue of *Economic Affairs*, the scholarly journal of London's Institute of Economic Affairs, focuses on progress in the vital areas of entrepreneurial business development, post-conflict resolution, international trade, communications technology, and education. While conditions are not perfect, these case studies clearly show how local entrepreneurs are making a positive difference to the lives of their fellow citizens.

Further studies

State Power, Entrepreneurship and Coffee: the Rwandan Experience by Karol Boudreaux describes coffee farming in gradually bringing former enemies together in war-ravaged Rwanda.

Mauritius: The Entrepreneurial Nation (working title) by Eustace Davie, describes the innovative policies devised by this highly successful island nation to overcome economic crises that have faced it.

Health Policy Unit

The Health Policy Unit (HPU) has set itself the task of promoting and defending private health care in South Africa. This stance has been adopted against the background of a conviction that the people of South Africa, including the poor, will derive most benefit in the longer term if a steadily increasing proportion of total health care is provided by the private health sector. This view is consistent with a steadily growing trend for “national health” systems of various kinds to contract out the delivery of health care to private providers.

Political supporters of national health systems and government officials employed in them display a reluctance to allow private sector providers to take over what they regard as their fiefdoms but economics is compelling them to give way.

Costs are often lower in private than in public hospitals – by 2001 the average cost of a stay in a U.S. public hospital was \$7,400, which was 24 per cent greater than the \$5,972 cost in a private for-profit hospital. (US Dept of Health). A 240-bed hospital in Stockholm, which was leased to a private provider, reduced unit costs by 30 per cent and is now able to treat 100,000 more patients with the same resources; the Mildura hospital BOO contract in Australia reduced capital costs by 20 per cent, patient volumes increased 30 per cent in the first year, clinical services are provided at a lower cost, and the operator made a profit (World Bank).

Privatisation of various aspects allows government to control cost and improve service – in Australia, federal and state governments have introduced private participation in more than 50 public hospitals through different approaches, including BOO transactions, conversion or sale of hospitals to private operators, private management of public hospitals, build-own-leaseback arrangements, and collocations in which a private wing is located within or beside a public hospital.

The HPU recently held a workshop on the feasibility of privatising various aspects of hospital services. Members of the health industry attended the workshop and participated in the discussions. The advice to the HPU was that separation of funding and provision of hospital services was most desirable but that government in South Africa was likely to have a significant role in funding health care for the poor for many years to come. The HPU approach has been that in a competitive private health care market the government will be able to purchase high quality health care for the poor at lower cost, on condition that its purchasing is done efficiently – a role that could be carried out on its behalf by competing medical schemes.

Report on the Health Policy Unit/International Policy Network Workshop held at the Sandton Sun on 2 March 2007

SOUTH AFRICA'S HEALTH CARE ENVIRONMENT

In the first session of the workshop, *Private Health Care Delivery – successes and constraints*, Dr Kgosi Letlape (SAMA), Vicki Ehrich (PIASA), Adv Kurt Worrall-Clare (HASA), Dr Maurice Goodman (Discovery), and Lorraine Osman (PSSA) spoke on the contributions their respective professions and industries are making to health care delivery in South Africa and constraints that affect the delivery process.

In the second session, *Health Care Delivery to the Poor*, Philip Stevens spoke on the newly published IPN book, *Fighting the diseases of poverty*, Patrick Moonasar on “Combating

Malaria”, Temba Nolutshungu on “Providing the Poor with Greater Choice”, and Johan Biermann on “The private/public health care split”.

The following brief descriptions of the presentations at the workshop, taken from PowerPoint presentations, endeavour but do not necessarily succeed in capturing the most important aspects of the presentations, which would require detailed papers:

**Session 1 – Private Health Care Delivery – Successes and Constraints
Pharmaceutical Manufacturers & Suppliers –
Vicki Ehrich – Executive Director, Pharmaceutical Association of South Africa
(PIASA)**

The PIASA mission statement captures the endeavours of all pharmaceutical manufacturers and suppliers in South Africa: “To sustain a favourable environment for the continued development of the pharmaceutical industry in South Africa as it strives to increase access to quality medicines, with the ultimate aim of saving lives and improving the quality of life of all South Africans.”

Pharmaceutical companies will continue to conduct research and development (R&D) but developing countries face challenges in benefiting from these activities. There are inadequate economic incentives to encourage firms to conduct R&D to provide for the needs of developing countries; inhabitants of developing countries do not have the resources necessary to increase their access to medicines, and there is inadequate demand to stimulate investment by innovators in developing countries.

South Africa benefits in the following ways from local investment by pharmaceutical companies and their presence in the country: ► new medicines are registered and launched earlier ► patients have earlier access to new medicines ► there is local investment in education and training ► there is local investment in clinical research ► there is industry investment in therapeutic areas ► the state sector has local access to supplies, and ► the companies transfer skills and technology. These companies spent almost R12bn in SA in 2003, which included R1.7bn in taxation, almost as much as they paid in salaries to their 8,600 staff member (R1.9bn).

Mutinational register new medicines, educate South Africans and develop the market, and transfer technology to local (generic) manufacturers. Generic manufacturers expand supply, create price competition and are important suppliers to government health care facilities.

Clinical research sponsored by pharmaceutical companies attracts R1bn in direct foreign investment to SA. This investment employs about 2,000 skilled researchers at scientific and academic institutions together with auxiliary staff. These activities transfer knowledge, including modern research technology, help SA to retain skilled research scientists with knowledge and experience, and increase patient access to new and improved medicines.

The SA population is currently being affected, and will be affected in the future, by factors that are impacting on multinational pharmaceutical companies operating in the country. They are: ► company rationalisation of manufacturing and other activities ► reduced intellectual property protection ► regulatory delays in approval of new products and clinical trials ► imposition of price controls on medicines ► the demands of the Health Charter ► lack of economic incentives for operating in SA ► several other regulatory,

administrative and economic disincentives that are exerting downward pressure on the production and distribution of innovative medicines in SA.

Hospitals – Adv. Kurt Worrall-Clare, Executive Director, Hospital Association of South Africa

Specific key indicators:

Total number of hospitals:	216
Total number of beds:	27 443
Number of direct employees:	54 000 (12.6% of personal services sector)
Number of indirect employees:	Estimate 10 000
Private hospitals as a % of GDP:	0.8%
Number of supporting medical practitioners:	Approximately 6 000
Total taxes paid:	R2.1 Billion (Company and Income)
Local government taxes:	R300 Million
Hospital growth (2005):	2.4% (2.4% in 2004)
Total number of people seeking treatment:	40.6% (General Household Survey)

Uniformity between Private and Public Health

Section 2 of the National Health Act, 2003 defines the key principles of the law relating to health care in SA:

“The objects of this act are to regulate national health and to provide uniformity in respect of health services across the nation by –

- (a) establishing a national health system which encompasses public and private health services; and
- (b) provides in an equitable manner the population of the Republic of South Africa with the best possible health services that the available resources can afford.”

Uniformity between sectors – areas to consider

Section 5 of the Act: A health care provider, health worker or health establishment may not refuse a person emergency medical treatment.

► The law applies to both the public and private sector. ► Is there a need for a uniform policy? ► Basic protocol based on sound clinical practice and patients’ needs ► Patient transfers between sectors

Section 6, 7 and 8: Informed consent with policy relating to all types of patients.

Section 14: privacy, confidentiality and the right to access health services.

The need for ‘information’ uniformity: Future health policy and strategy – utilisation and disease trends

► Capitalising on information contained within the respective sectors ► Understanding utilisation in both the public and private sectors ► Qualifying disease trends and adapting policy accordingly ► Sharing resources for effective service delivery ► Expanding on existing Public Private Initiatives

Economic performance of the private hospital industry

SA’s private hospital industry gained momentum in the 1970’s. In the 1980’s Afrox (now Life Healthcare), Medi-Clinic and other developers entered the market. Entry of the large corporates has led to ► market consolidation ► economies of scale and increased

purchasing power ► cost containment initiatives ► streamlined processes and procedures ► increased competition ► industry increase in growth, revenue and profitability

A uniform plan to address skills: Public and private sectors working together – Putting Nurse Training in perspective

► Approximately R120 million per annum is spent on training ► The National Health Act, 2003 recognises in its preamble and value statements that there : is a need to encourage a spirit of co-operation and partnership – is a shared responsibility between the public and private sectors – is a need to work with health care professionals and providers ► 34,965 (18.4%) of the country's 190,449 nurses (as per the Nursing Council register) no longer practise ► The situation has been aggravated by the general decrease in the number of nurses qualifying

HASA research

HASA has carried out research on hospital utilisation trends within various age groups for the years 2002-2005 in the categories maternity, surgical and medical. The purpose is to identify disease trends within age groups with a view to deciding what response, if any, should be considered by the hospital sector. There is a need to establish whether there are similar trends in the public sector, to discuss the issue with the national Department of Health (DOH), and discuss the possibility of adapting health policy in partnership with the private sector.

Co-operation between DOH and HASA on training of health professionals

► There should be a sharing of information ► There should be co-operation in training to ensure that adequate appropriate skills are available in both the public and private sectors in the future ► Academic institutions should source information from providers to ensure that training is appropriate ► Training selection should be based on the needs of providers and an understanding of health trends within the country

Other measures that will improve health care delivery

► Encourage industry competition ► Avoid restrictive regulation and/or regulation ► DOH should engage with other statutory Councils and private training institutions to ensure appropriate responses to health care skills shortages

Promote appropriate Public/Private initiatives

► HASA is in favour of appropriate partnerships with the state ► Partnerships within the private sector between health care providers could reduce costs by increasing volume ► Private hospitals could engage in an 'Adopt-a-Clinic' programme in which they adopt and assist a clinic situated within 50kms with delivery of health care ► Develop co-operative initiatives for developing appropriate training within specialist sectors currently experiencing shortages ► Private sector abilities should be utilised where needed and the search for solutions should not be confined to the State sector ► HASA supports the principle of finding sustainable alternatives to health education financing and is committed to finding viable, mutually beneficial solutions to health care problems ► Consultation and engagement between the public and private sectors constitutes the most constructive way to move forward.

Health Care Funders – Dr Maurice Goodman, Head – Health professions Strategy, Discovery Health

World-class private health care system

South Africa has a world-class private health care system, with a very sophisticated and efficient funding sector.

Key industry achievements

Over the past 5 years, there have been significant achievements in the critical areas of access, solvency, development of low-income cover, regulatory framework improvements, and member protection. Membership of medical aid schemes, however, has remained static at some 7 million lives.

Key objectives in private healthcare

There is a national imperative to significantly increase this core of lives able to access private health care. Based on the solid foundation that has been created, we are very well poised to achieve this over the next few years.

Critical success factors

The key lies in the successful management of the following critical areas: cost and affordability, risk protection, distribution, efficient use of capital and a compelling vision for the future.

Cost impact of high-cost conditions

High cost treatments using the latest technologies cannot be included in the general cover provided to members without driving up premiums to members. Full coverage, including access to the latest biotech drugs, would drive up member contributions by an estimated 60%, which would place the cover out of reach of the average current member. An estimated 2½ % of members (1 in 40) would be likely to benefit from access to the high-cost drugs at an additional annual cost of 60% to the other 97½% of members.

Critical success factors

► Cost & Affordability – Increased focus on managing underlying cost drivers – increased co-operation between providers, funders and suppliers ► Risk Protection – Co-operate to provide cover not compete to avoid paying – Strengthen underwriting protection to restrict opportunistic behaviour ► Distribution – Powerful, educated asset for industry – Encourage growth in vulnerable segments, mainly individual members and low income products ► Capital – Rapid build up of internal capital – Utilise capital efficiently to create optimal balance between member security and cost.

Consolidation over time

► In the past health care funding was a ‘cottage industry’ with little capital, underdeveloped infrastructure, and there was little competitive pressure to meet consumer needs ► Consolidation has resulted in 1 in 4 medical schemes ceasing to exist ► The consolidation has led to the growth of world-class private health care administration, broad access, the development of a sound regulatory framework, and robust consumer protection.

Service standards and costs of administration

► SA service standards for responding to calls from members exceed international benchmarks for speed of answering, there are fewer abandoned calls, and a higher rate of first call resolution of enquiries ► International benchmarks are also exceeded processing

of claims and accuracy of claims management ► Administration costs compare favourably with administrators in other countries with similar operating environments.

Competition versus co-operation

► The health care sector should compete on service, innovation, product, risk management, and networks ► It should co-operate on dealing with fraud, high cost technology, industry reputation and the regulatory framework.

Conclusion

Utilising the solid foundation that has been built, co-operation between the major industry players, providers, suppliers and funders, coupled with a constructive, solution-focussed relationship with the various regulatory authorities, will ensure that we grow our world-class private health care system into an enduring national asset.

Pharmacists – Lorraine Osman – Head: Public Affairs, Pharmaceutical Society of South Africa – The pharmacist – adding value to health care

South Africa's professional pharmacy services

Pharmacists in South Africa provide a highly professional service that is far superior to that received in other developing countries. As this high quality service is of long standing, South Africans probably do not appreciate the value they are receiving from their local pharmacist. It is only when they attempt to purchase medication in another developing country that they are able to make a comparison.

Some of the services that pharmacies provide

► Medicine dispensing ► Pharmacist initiated therapy ► Primary Care Drug Therapy (PCDT) ► Family planning ► Advice and referral for drug abuse ► Drug utilisation review ► Screening and monitoring tests ► Immunisation

This presentation focussed on three areas where pharmacists can add value to health care ► Minimising adverse drug events ► Improving adherence to medicine regimens ► Improving health outcomes

Reducing the incidence of adverse drug events

A study published in the Journal of the American Medical Association in 1995 reached the conclusion that adverse drug events were common and were often preventable. A follow up study, published in 1999, determined that the rate of preventable adverse drug effects (ADEs) decreased following intervention by a pharmacist.

Underlying reasons for adverse drug events (1995 study): ► Prescribing errors – 56% ► Administration – 34% ► Transcription – 6% ► Dispensing errors – 4%. ► Intervention (1999 study): A senior pharmacist assisting the intensive care unit (ICU) reduced the preventable prescribing ADEs by 66%.

Improving adherence to medicine regimes

A recent study, published in Pharmacy World & Science, reports improved adherence to medicine regimes and reduced incidence of medicine-related problems where pharmacists are involved in providing information and advice to patients soon after commencement of treatment. The outcome measures were: ► Incidence of non-adherence ► Problems with the new medicine ► beliefs about the new medicine ► Safety and usefulness of the interventions

Improving health outcomes

The SA Pharmacy Council recently published the rules relating to services for which pharmacists may levy a fee. Many of these services are known to improve healthy outcomes. Pharmacists may levy fees for: ► Dispensing procedures ► Clinical pharmacy ► Promotion of public health – e.g. immunisation, screening tests (e.g. blood glucose and cholesterol) ► Reimbursable procedures

Community pharmacist cholesterol management programme

In 2002, the Archives of Internal Medicine reported that community pharmacists working with patients and physicians had recently conducted a highly successful cholesterol management programme for high-risk patients, demonstrating that they can play an important role in improving health outcomes by providing screening and monitoring services, particularly for those conditions that will improve with lifestyle modification.

Challenges or opportunities?

► Political will ► Legislation ► Public/Private Initiatives (PPIs) ► Funders ► Resistance to change ► Consumer attitudes

Conclusion

Pharmacists should be empowered by policy and legislation to achieve their full potential and ultimately contribute to the best health outcomes for patients.

Session 2 – Health Care Delivery to the Poor

Diseases of Poverty –

**Philip Stevens – Director, Health Programme, International Policy Network
Increasing access to medicines in less developed countries (LDCs)**

Fighting diseases of poverty

Many health policies promoted by intergovernmental bodies and governments in less developed countries are counterproductive and lead to unnecessary suffering, according to the new International Policy Network book, *Fighting the diseases of poverty*, edited by Philip Stevens and launched by him at the workshop. Global experts challenge conventional wisdom about the diseases of poverty and set out pragmatic approaches to fighting disease.

The contributors to the book show how ► The explosion of counterfeit medicines in less developed countries gravely damages the health of the poor and is encouraged by a lack of enforceable property rights and weak rule of law ► Endemic corruption in the health systems of less developed countries imperils the health-related Millennium Development Goals ► The UN's centrally-planned AIDS and malaria programmes have harmed patients and wasted resources ► Government attempts to plan and control universal healthcare systems result in rationing, inequitable access and entrenched corruption ► The structure and funding of the World Health Organisation leads it to focus resources on the modish health issues of wealthy countries instead of its core business of fighting the diseases of poverty.

Most diseases in LDCs caused by poverty

► 45% of illnesses in LDCs caused by poverty (malnutrition, indoor air pollution, poor sanitation) ► Respiratory infections single biggest killer of children under 5 ► Diarrhoeal diseases 2nd biggest killer of children (1.8m deaths annually) ► Vitamin A deficiency

implicated in 800,000 child deaths per year ► Childhood diseases account for 5.2% of DALYS in LDCs

Most diseases in LDCs are preventable

► Respiratory infections caused by burning dirty fuels indoors ► Diarrhoea can be easily treated by cheap Oral Rehydration Sachets ► Childhood vaccines cheap and off-patent ► Drugs also exist for malaria, HIV, TB etc ► 98% of WHO Essential Medicines List off-patent

Access to medicines is low in LDCs

► 30% of world lack access to essential medicines ► 50% in sub-Saharan Africa ► As a result, over 10m children die each year from preventable diseases (Black, 2003)

Why is access so low?

Weak healthcare systems ► Corruption ► Inadequate risk pooling (health insurance) ► Taxes and tariffs ► Non-tariff barriers to drug imports ► Price controls ► Counterfeit medicines

1. Weak healthcare systems

Lack of roads, electricity, clinics, hospitals ► 'Brain drain' of medical personnel ► Monopoly government provision of services can lead to rationing, inequity, slow tech transfer, capture by influential groups, poor productivity

2. Corruption in healthcare

► Health is at the centre of the current foreign aid 'big push' ► Little evidence to date that this will work, mainly because of ineffective spending ► Corruption undermines donor funding & jeopardises attainment of MDGs: Absenteeism – Purchase of public positions – Drug leakage – Corruption in the supply chain / leakage of public funds – Informal payments ► Made worse by the removal of choice and contestability

3. Inadequate risk pooling mechanisms

► In 1998, only one LDC had a properly functioning social insurance scheme (Carrin, 2002) ► Insurance markets prevented from developing by counterproductive regulation and poor governance

4. Taxes and tariffs

► Regressive form of revenue raising that penalises poor & sick ► Includes tariffs; VAT; port charges; clearance & freight charges; inspection charges

5. Non-tariff barriers

► Local drug approval agencies enforce rigorous requirements based more on industrial protectionism than clinical need ► Example – Medicines Control Council in SA takes an average of 39 months to approve drugs – even if already FDA/EMA approved ► Companies may avoid LDC markets, meaning fewer products and less price competition

6. Price controls

► Undermines differential pricing, thereby price competition ► Discourages companies from registering products in certain markets (also a risk of parallel importation) ► Reduces supply by squeezing profits of suppliers such as pharmacies ► Reduces incentives for pharmacists to invest in training – particularly harmful for rural poor

7. Counterfeit medicines

▶ Some 50% of drugs in LDCs are counterfeit (WHO) ▶ Encouraged by artificial price inflators and parallel importation ▶ Also encouraged by weak rule of law and inability to enforce trademarks

What can be done?

▶ Economic growth translates into better health ▶ Improved health accelerates economic growth because people are more productive ▶ Free trade reinforces both of the above by increasing incomes, driving down costs & accelerating the spread of technology ▶ 20th Century Asia is a good example ▶ Healthcare systems – Encourage diversity of provision – Vouchers? – Import private sector management techniques into public sector ▶ Risk pooling & insurance – Simplify regulations, reform governance ▶ Dismantle taxes and tariffs (SA join Singapore/US WTO coalition?) ▶ Harmonise drug approval with FDA/EU/Japan or create regional approval agency or competing private agencies ▶ Move beyond donor funding – foreign aid is unsustainable – ‘He who pays the piper calls the tune’

Contributors to “*Fighting the diseases of poverty*”

The contributors include ▶ Johan Biermann, Planning Consultant and Policy Researcher, South Africa ▶ David Bloom, Professor of Economics and Demography at the Harvard School of Public Health ▶ David Canning, Professor of Economics and International Health at the Harvard School of Public Health ▶ Indur Goklany, U.S. Department of the Interior’s Office of Policy Analysis ▶ Dr Maureen Lewis, Health and Development Economist at the Center for Global Development in Washington ▶ Julian Morris, founder of the International Policy Network ▶ Philip Stevens, Director, Health Programme, International Policy Network ▶ Richard Wagner, Professor of Economics at George Mason University, and ▶ Mark Weston, Independent Policy Consultant)

Combating Malaria –

Patrick Moonasar, Deputy Director, National Malaria Manager, Department of Health Malaria Prevention and Control in South Africa and Beyond

KEY ISSUES

▶ Defining Malaria ▶ Global and African Burden ▶ National Malaria Policy ▶ Malaria trends in South Africa, Past and Present ▶ SADC and Regional Malaria Control Initiatives

Defining malaria

▶ Malaria is a parasitic disease that is transmitted by anopheline mosquitoes.

Global and African Burden

▶ The World Health Organisation estimates that there are between 350 – 500 clinical episodes of malaria and 1 million deaths in the world, each year. ▶ Ninety percent of the global cases and eighty percent of the deaths occur in Africa. ▶ Malaria impedes socio-economic development. ▶ In South Africa, 3 of 9 provinces are endemic for malaria, these include: Limpopo, Mpumalanga and KwaZulu-Natal. ▶ Malaria is seasonally transmitted, with cases starting to increase from September and waning towards May.

National Malaria Policy

▶ The goal of the National Malaria Control Programme in South Africa is to reduce malaria morbidity and mortality in the country. ▶ The key strategies for controlling malaria in South Africa include – Vector Control – Case Management – Surveillance – Epidemic

Preparedness and Response and Advocacy – Information Education and Communication
▶ The key targets for the malaria control programme is to reduce and maintain malaria cases to 1 per thousand population at risk and to reduce malaria deaths to 5 per thousand malaria cases and maintain a case fatality rate of less than 0.5%.

Malaria trends in South Africa, Past and Present

▶ South Africa has made steady progress in terms of controlling malaria; the country experienced a huge increase in cases and deaths in 2000, with cases being approximately 64,000 and deaths almost 460. ▶ South Africa has changed its drug policy from monotherapy to Artemisinin based combination treatment and its insecticide policy to include DDT.

SADC and Regional Malaria Control Initiatives and Key Challenge for South Africa

▶ South Africa has embarked on cross border malaria control initiatives, with neighbouring Mozambique and Zimbabwe. ▶ As a result of these interventions, malaria cases in South Africa are averaging below 15,000 cases and deaths below 100 each year for the past 3 years. ▶ The key challenge for South Africa is to further reduce its malaria cases and deaths; this can be achieved through increasing capacity at the implementation level, scaling up cross border malaria initiatives and malaria information education and communication.

Providing the poor with greater health care choices – Temba Nolutshungu, Director, Free Market Foundation

The poor will benefit substantially from greater choice in health care. That taxpayers are paying for the care does not mean that there should be an absence of choice. In fact, taxpayers should insist that their money is spent wisely and well. The poor must therefore be in a position to choose from providers of quality care. The only way to achieve choice is to have competing providers and the choices the patients make must have consequences for providers.

In order for this to happen I suggest that the government transfer ownership and control in the state institutions (hospitals, clinics, laboratories etc) to public health sector workers on a preferential basis, ensuring equity between public and private sector employees. This would result in choices for the poor as more and better-motivated providers offer the poor better quality services at competitive prices. The added advantage is that the government could at the same time respond to the criticism that the favoured few are being unjustly enriched, by selling shares in hospitals and clinics to interested patients in surrounding areas. Patients would then have an interest in providing voluntary support to staff members of these facilities.

Some people may believe that the poor will never have the necessary information to make wise health care choices. It is significant that in the 1950's poor patients in the small Free State town of Harrismith were choosing to pay private general practitioners to treat them rather than receive free taxpayer-provided health care. What is even more significant is that the District Surgeon providing the taxpayer-funded care was a private practitioner, appointed to carry out the part-time government role. The poor did not like the care they received from the government appointee and preferred to pay out of their meagre resources for what they regarded as a better option. Many similar cases support the idea of transferring ownership and control of hospital and other medical institutions from the government to the medical personnel and other staff members.

In cases of very large facilities, such as major hospitals, they could be split according to their functional divisions and transferred to separate companies to make the operations more manageable. The facilities would continue to carry out the same functions, serving largely the same people, under contract to the government. Identifying the poor on a means test basis, the government would purchase services from the providers on their behalf on contractual terms. Such a process would provide equity in the asset empowerment process between private and public employees, and to surrounding communities, and have other substantial advantages.

Current state health sector employees, as owners, would have very different incentives to those they have as employees. At the outset, every facility transferred to the new owners would be transferred together with a reasonably long-term government contract to supply services to existing patients. Thereafter, contract renewals would be subject to performance and normal tender procedures. In hiring contractors, the DOH would set strict requirements for the quality of care, insert provisions for the cancellation of contracts if the requirements are not met, and carefully monitor compliance.

The dynamics within the facilities would change dramatically due to the fact that each facility would be competing with all other similar facilities for government contracts. Employees as shareholders would not be as easily enticed away as workers who have no ownership rights. Salaries within the new companies would be dependent on profitability and it would be in the interests of owner-employees to reduce waste, increase efficiency and increase quality of care. In addition to their contract patients, they would be attempting to attract additional paying patients in an effort to increase turnover and profitability.

Competition with all other providers for retention and acquisition of contracts and paying patients would achieve what coercive policies cannot achieve; improve the quality of service provided by health-care workers. By transferring assets to its employees the DOH would therefore simultaneously bring about economic empowerment and improve access, equity and quality.

**The private/public health care split –
Johan Biermann, Researcher and Consultant, Contributor to *Fighting the diseases of poverty***

South Africa's health care is provided by the government (public) health sector, funded by taxpayers, and a private sector that is financed in various ways. The government sector provides care to those who cannot afford private care and are not beneficiaries of private philanthropy. The private sector provides services to members of private medical aid funds, those who choose to pay out of pocket for health care, employees of companies in company-owned and funded facilities, government contract patients, and those who benefit from private philanthropy.

The government health sector is under strain, suffering from shortages of medicines, doctors, staff, and managerial skills and lacks sophisticated technology. By contrast, South Africa's private health-care sector is one of the best in the world. It provides health-care services to a large cross-section of the population and attracts foreigners as health tourists. South African private hospital groups have won tenders to provide health services in the United Kingdom, medical schemes are exporting some of their ideas to other countries, and the world's leading pharmaceutical companies are represented in the country.

The government's policy documents claim that only a small percentage of the population use private health care and that 84% of the South African population depend on the government health sector, a figure apparently based on the assumption that the approximate 16% of the population who are members of private medical schemes, are the only patients treated in the private health sector. However, the fact that approximately 16% of the population are members of private medical schemes does not necessarily mean that the remaining 84% are treated in the government health sector.

An analysis of available information indicates that up to 46% of the population makes use of private health services and that the government sector spends its money on a potential 54% of the population (24 million people) and not 84% as claimed. However, this makes the challenge of providing health care to the poor no less daunting. It is huge, not only in terms of the number of poor people, but also in terms of difficulty of delivery as 75% of the poor live in rural areas where health services are least developed.

Accurately determining the percentage of the population that is dependant on the government health sector is of vital importance. It is even more important to determine how many people actually use government health services, the frequency of that use, and nature of the services they utilise. The possibility that some people may, or are entitled to, use a particular service does not mean that they will do so.

If future policies are to be based on incorrect figures for the respective quantities of services provided by the government and private health services, it will have serious consequences for health-care delivery. It is essential that an effort be made to obtain a better understanding of the existing situation.

Intellectual Property Rights and Health Care

The FMF/IPN conference on IPR in Emerging Countries included a session on intellectual property rights in respect of medicines. The HPU is collaborating with other think tanks once again as a member of the Civil Society Group, which is monitoring the activities of the Intergovernmental Working Group (IGWG) of the WHO's Commission on Intellectual Property Rights, Innovation and Public Health.

The IGWG is scheduled to make proposals regarding three issues identified by the WHO as affecting the delivery of health care to the poor:

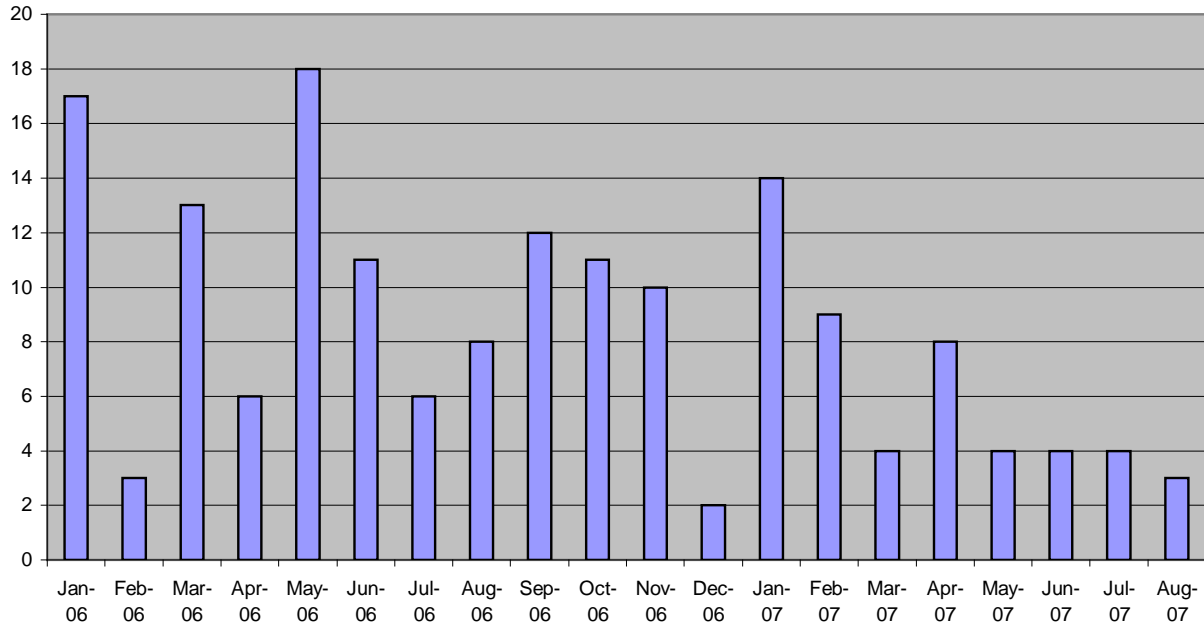
- ❖ Neglected diseases disproportionately affect poorer countries;
- ❖ The international patent system, and concomitantly—price, is a barrier to access of medicines for the poor; and
- ❖ There is a dearth of R&D for these diseases.

The Civil Society Coalition, consisting of 16 organisations from 12 countries, does not agree with the IGWG's analysis or the proposals put forward by member countries for solving the problems. A report will be issued by the Coalition once the IGWG proposals are available.

FMF Media Coverage

The graph below shows the number of times one of the website's Feature Articles was republished in the media.

Number of times website articles republished in the media



The following articles generated by the Foundation, or resulting from interviews with FMF directors, have been published in the media since April 2007:

Website Article	Title	Author	Media	Date
*	Promises, promises and donor aid money	Richard Tren & Jasson Urbach	Moneyweb	20-Aug-07
	TV/Radio interview	Mark Lange & Alec van Gelder	SABC	15-Aug-07
	TV/Radio interview	Leon Louw	SABC	14-Aug-07
	TV/Radio interview	Leon Louw	CNBC	14-Aug-07
*	Good intentions don't make system effective	Jasson Urbach	The Star	09-Aug-07
*	South Africa's inhumane labour laws	Eustace Davie	Moneyweb	08-Aug-07
*	South Africa's inhumane labour laws	Eustace Davie	AgriAfrica	08-Aug-07
*	Gee staatsgrond aan swartes	Leon Louw	Volksblad & Die Burger	07-Aug-07

*	Privatise SAA to stop needlessly squandering scarce resources	Terry Markman	AgriAfrica	03-Aug-07
	Intellectual property probed		Sandton Chronicle	03-Aug-07
*	Breaking the shackles of collectivism	Temba Nolutshungu	Business Day	30-Jul-07
	Chaotic industry policy 'threatens growth bid'	Mathabo le Roux	Business Day	23-Jul-07
*	If you love liberty, thank Robert Mugabe	Eustace Davie	AgriAfrica	13-Jul-07
*	Conserving wildlife in Namibia	Jasson Urbach	AgriAfrica	05-Jul-07
*	No other human right is as important as individual liberty	Temba Nolutshungu	Moneyweb	27-Jun-07
*	No other human right is as important as individual liberty	Temba Nolutshungu	AgriAfrica	27-Jun-07
*	On whom shall we depend for our health care?	Eustace Davie	Witness	16-Jun-07
*	On whom shall we depend for our health care?	Eustace Davie	Moneyweb	14-Jun-07
	Moneyweb Interview - Public Sector Strike	Leon Louw / Alec Hogg	Moneyweb	11-Jun-07
*	The "Mauritian miracle" appears far from over	Eustace Davie	The South African Exporter (Business Day)	Jun-07
*	Privatising tertiary education could reduce shortages	Jasson Urbach	HMR Africa	Jun-07
*	Press freedom under threat	Langa Bodlani	Moneyweb	17-May-07
*	The healing touch of a free market	Eustace Davie	Business Day	11-May-07
*	Respect the Constitution	Eustace Davie	Moneyweb	19-Apr-07
	Economist urges flat tax rates for SA	Donwald Pressly	Mail & Guardian Online	19-Apr-07
	Een belastingkoers gevra	Jaco Leuvenink	Beeld & Die Burger	16-Apr-07
*	Privatise medical education	Jasson Urbach	Business Day	13-Apr-07
	Stigting vra private mediese skole	Jaco Leuvenink	Volksblad & Beeld	12-Apr-07
	FMF economist urges flat tax	Donwald Pressly	Sunday Times	12-Apr-07
	Asset forfeitures can subvert law, says project	Ernest Mabuza	Business Day	10-Apr-07

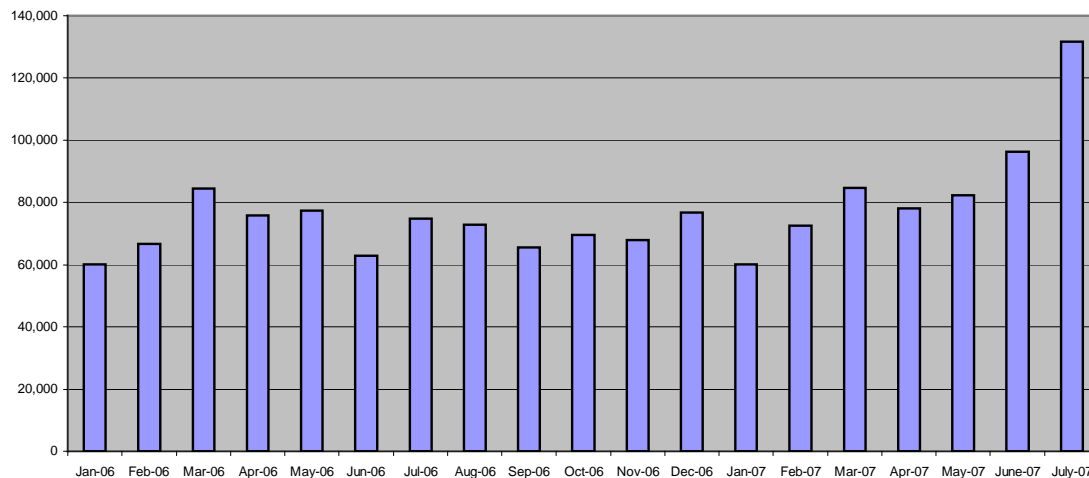
Reports on the Free Market Foundation Health Policy Unit seminar		HMR Africa	Apr-07
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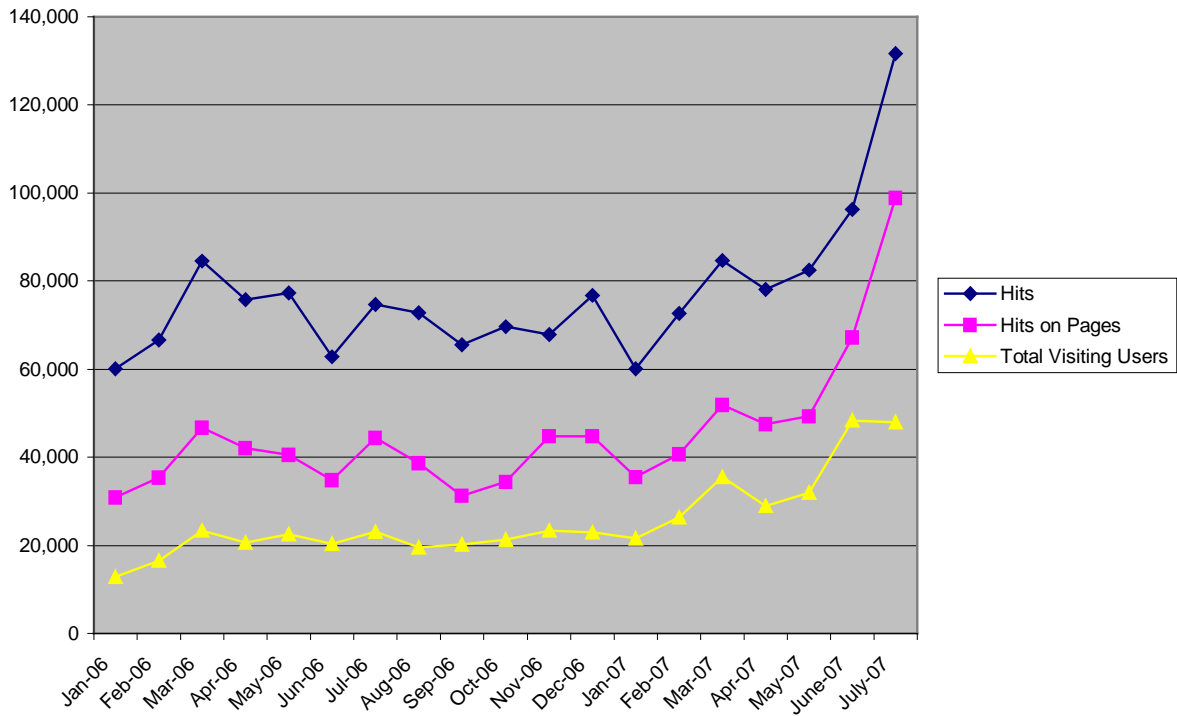
FMF Website

FMF Website Statistics – January 2006 to July 2007

	Hits	Hits on Pages	Total Visiting Users	Average Hits per Day	Average Users per Day	Incomplete downloads
Jan-06	60,091	30,831	12,798	1,938.42	412.84	136
Feb-06	66,650	35,383	16,516	2,380.36	589.86	124
Mar-06	84,554	46,756	23,381	2,727.55	754.23	126
Apr-06	75,809	42,105	20,610	2,526.97	687.00	321
May-06	77,344	40,567	22,527	2,494.97	726.68	583
Jun-06	62,851	34,857	20,367	2,095.03	678.90	359
Jul-06	74,768	44,416	23,151	2,411.87	746.81	489
Aug-06	72,851	38,667	19,551	2,350.03	630.68	1,274
Sep-06	65,613	31,235	20,256	2,187.10	675.20	860
Oct-06	69,626	34,391	21,349	2,246.00	688.68	612
Nov-06	67,935	44,812	23,355	2,191.45	753.39	306
Dec-06	76,725	44,766	23,009	2,557.50	766.97	351
Jan-07	60,077	35,578	21,635	1,938	697.90	369
Feb-07	72,600	40,751	26,332	2,593	940.43	469
Mar-07	84,617	51,856	35,464	2,730	1,144	436
Apr-07	78,181	47,590	29,024	2,606	967.47	523
May-07	82,431	49,361	31,936	2,659	1,030.19	738
June-07	96,295	67,264	48,351	3,210	1,611.70	325
July-07	131,619	98,944	47,989	4,246	1,548.03	309

Hits





The following Feature Articles have been published by the Foundation since March 2007:

Name of the Article	Author	Date
Remove victimless crimes from statutes to concentrate on real crime	Jim Peron	21-Aug-07
Promises, promises and donor aid money	Richard Tren & Jasson Urbach	14-Aug-07
South Africa's inhumane labour laws	Eustace Davie	07-Aug-08
Privatise SAA to stop needlessly squandering scarce resources	Terry Markman	31-Jul-07
High economic growth is a matter of choice not chance or destiny	Temba Nolutshungu	24-Jul-07
The ubiquitous power of the cell phone	Jasson Urbach	17-Jul-07
If you love liberty, thank Robert Mugabe	Eustace Davie	10-Jul-07
Conserving wildlife in Namibia	Jasson Urbach	03-Jul-07
No other human right is as important as individual liberty	Temba Nolutshungu	26-Jun-07
Is it possible to eliminate malaria in South Africa?	Jasson Urbach	19-Jun-07

On whom shall South Africans depend for their health care	Eustace Davie	12-Jun-07
Crime, unemployment and economic growth	Jasson Urbach	05-Jun-07
Transfer land from the state to the people now	Leon Louw	29-May-07
A tale of two cities: enslaved Prague and free Prague	Temba Nolutshungu	22-May-07
Press freedom under threat	Langa Bodlani	15-May-07
SA 2007 Tax Freedom Day – 11 May – the worst ever	Garth Zietsman	08-May-07
Mauritius: Where they don't kill gees that lay golden eggs	Eustace Davie	02-May-07
LFS data is imperative	Jasson Urbach	24 Apr-07
Respect the Constitution and apply economics in the pricing of medicines	Eustace Davie	17-Apr-07
The tax conundrum – governments collect more tax at lower rates	Jasson Urbach	11-Apr-07
Privatise South Africa's tertiary medical education facilities	Jasson Urbach	03-Apr-07

Conclusion

The directors are most grateful to members and supporters of the Foundation for their continuing financial and moral support. There is a great deal of work for the Foundation to do. South Africa's economy must grow more rapidly to provide jobs for the large number of unemployed people in the country and policy changes based on tested and proven growth theories can help. The FMF will be offering the newest data to policy makers in the next several months.

Our thanks to the office bearers of the FMF, the Patrons, Council Members, and Executive Committee members and especially to our Chairman, Dr Brian Benfield, who gives up a great deal of his valuable time to guide the affairs of the Foundation with exceptional wisdom. Our special thanks also to our staff for their exceptional work over the last few months.

30 August 2007