

## Executive summary

*Transparency International*

---

Every year, the world spends more than US \$3 trillion on health services, most of which is financed by taxpayers. These large flows of funds are an attractive target for abuse. The stakes are high and the resources precious: money lost to corruption could be used to buy medicines, equip hospitals or hire badly needed medical staff.

The diversity of health systems worldwide, the multiplicity of parties involved, the paucity of good record keeping in many countries, and the complexity in distinguishing among corruption, inefficiency and honest mistakes make it difficult to determine the overall costs of corruption in this sector around the globe. But the scale of corruption is vast in both rich and poor countries. In the United States, which spends more on health care – 15.3 per cent of its GDP – than any other industrialised nation, the two largest US public health care programmes, Medicare and Medicaid, estimate that 5–10 per cent of their budget is lost to ‘overpayment’. In Cambodia, health practitioners interviewed for the *Global Corruption Report 2006* estimate that more than 5 per cent of the health budget is lost to corruption before it even leaves central government.

Corruption deprives people of access to health care and can lead to the wrong treatments being administered. Corruption in the pharmaceutical chain can prove deadly: in the words of Dora Akunyili, head of Nigeria’s Food and Drug Authority and a winner of the TI Integrity Award in 2003, ‘drug counterfeiting, facilitated by corruption, kills en masse and anybody can be a victim’. The authority she heads has found cases of water being substituted for life-saving adrenaline and of active ingredients being diluted by counterfeiters, triggering drug-resistant strains of malaria, tuberculosis and HIV, the world’s biggest killers.

The poor are disproportionately affected by corruption in the health sector, as they are less able to afford small bribes for health services that are supposed to be free, or to pay for private alternatives where corruption has depleted public health services. A study of health care delivery in the Philippines finds that poor and middle-income municipalities report longer waiting times at public clinics than rich ones, and a higher frequency of being denied vaccines when corruption is rampant.

Corruption affects health policy and spending priorities. Examples in this year’s *Global Corruption Report* from Mexico and Kenya illustrate how public officials have abused their power to divert funds to ‘pet’ projects, regardless of whether they are in line with agreed health policy. There are also incentives for a distortion in payments at the service delivery level. When caregivers are paid on a fee-for-service basis, they have

incentives to provide unnecessary treatment to maximise their revenue. If instead they are paid 'per patient', they can profit by failing to provide needed services.

Reducing corruption can inject revenues back into the health sector. In the United Kingdom, the National Health Service's anti-fraud unit reports it has stopped corruption totalling more than £170 million (US \$300 million) since 1999, and the total financial benefits to the NHS (which also includes recovery of losses due to fraud and reduction in measured losses due to intervention by the counter-fraud service) have been four times that. That is enough to build 10 new hospitals.

Transparency International defines corruption as 'the abuse of entrusted power for private gain'. In the health sphere corruption encompasses bribery of regulators and medical professionals, manipulation of information on drug trials, the diversion of medicines and supplies, corruption in procurement, and overbilling of insurance companies. It is not limited to abuse by public officials, because society frequently entrusts private actors in health care with important public roles. When hospital administrators, insurers, physicians or pharmaceutical company executives dishonestly enrich themselves, they are not formally abusing a public office, but they are abusing entrusted power and stealing precious resources needed to improve health.

### Why is the health sector so prone to corruption?

Certain characteristics make all health systems – whether public or privately funded, in rich and poor countries – vulnerable to corruption:

- An *imbalance of information* prevails in health systems: health professionals have more information about illness than patients, and pharmaceutical and medical device companies know more about their products than public officials entrusted with spending decisions. Making information available can reduce losses to corruption. A study from Argentina showed that the variation across hospitals in prices paid for medical supplies dropped by 50 per cent after the ministry began to disseminate information about how much hospitals were paying for their supplies.
- The *uncertainty in health markets* – not knowing who will fall ill, when illness will occur, what kinds of illnesses people get and how effective treatments are – is another challenge for policy-makers, as it makes it difficult to manage resources, including the selection, monitoring, measuring and delivery of health care services and the design of health insurance plans. The risk of corruption is even higher in humanitarian emergency situations when medical care is needed urgently and oversight mechanisms are often bypassed.
- The *complexity of health systems*, particularly the large number of parties involved, exacerbates the difficulties of generating and analysing information, promoting transparency, and detecting and preventing corruption. The relationships between medical suppliers, health care providers and policy-makers are often opaque and can lead to distortions of policy that are bad for public health.

## The types of corruption in health

Regulators, payers, health care providers, suppliers and consumers face a complex mix of incentives that can lead to corruption. Forms of corruption in the health sector include:

- *Embezzlement and theft* from the health budget or user-fee revenue. This can occur at central or local government level or at the point of allocation to a particular health authority or health centre. Medicines and medical supplies or equipment may be stolen for personal use, use in private practice or resale.
- *Corruption in procurement*. Engaging in collusion, bribes and kickbacks in procurement results in overpayment for goods and contracted services, or in failure to enforce contractual standards for quality. In addition, hospital spending may include large investments in building construction and purchase of expensive technologies, areas of procurement that are particularly vulnerable to corruption.
- *Corruption in payment systems*. Corrupt practices include waiving fees or falsifying insurance documents for particular patients or using hospital budgets to benefit particular favoured individuals; illegally billing insurance companies, government or patients for services that are not covered or services not actually provided, in order to maximise revenue; falsification of invoice records, receipt books or utilisation records, or creation of 'ghost' patients. Other forms of corruption that relate to payment structures are: buying business from physicians by creating financial incentives or offering kickbacks for referrals; physicians improperly referring public hospital patients to their private practice; and performing unnecessary medical interventions in order to maximise fee revenue.
- *Corruption in the pharmaceutical supply chain*. Products can be diverted or stolen at various points in the distribution system; officials may demand 'fees' for approving products or facilities for clearing customs procedures or for setting prices; violations of industry marketing code practices may distort medical professionals' prescribing practices; demands for favours may be placed on suppliers as a condition for prescribing medicines; and counterfeit or other forms of sub-standard medicines may be allowed to circulate.
- *Corruption at the point of health service delivery* can take many forms: extorting or accepting under-the-table payments for services that are supposed to be provided free of charge; soliciting payments in exchange for special privileges or treatment; and extorting or accepting bribes to influence hiring decisions and decisions on licensing, accreditation or certification of facilities.

## Recommendations for the health sector

Anti-corruption measures must be tailored to fit the particular context of a country's health system. As with any sector, health system corruption is less likely in societies where

there is broad adherence to the rule of law, transparency and trust, where the public sector is ruled by effective civil service codes and strong accountability mechanisms, and where there is an independent media and strong civil society. Preventative measures – including procurement guidelines; codes of conduct for operators in the health sector, both institutional and individual; and transparency and monitoring procedures – are all pressure points for honest behaviour which are not part of the law but which can be effective mechanisms to combat corruption.

## Transparency

- It is essential that governments and health authorities publish regularly updated information on the Internet on health budgets and performance at the national, local and health delivery centre levels. Government departments, hospitals, health insurance entities and other agencies handling health service funds must be subject to independent audits.
- Governments and health authorities have responsibility to ensure that information about tender processes, including offers to tender, terms and conditions, the evaluation process and final decisions, is publicly available on the Internet.
- Effective nationwide systems for reporting adverse drug effects must be implemented wholeheartedly by governments, in order to provide a mandate and an incentive for physicians to report such information.
- A public database listing the protocols and results of all clinical drug trials needs to be developed. Reporting by the drug industry on clinical drug trials should be mandatory, as well as the disclosure of all financial contributions made to medical research units from pharmaceutical companies.
- Donors must be open and explicit about what they are giving, when and to whom, and should evaluate their programmes in terms of health outcomes and not level or speed of disbursement. Donors also have the duty to coordinate their support to the health sector, using the same accounting and auditing mechanisms to reduce transaction costs, improve efficiency and reduce risks of corruption.

## Codes of conduct

- The introduction and promotion of codes of conduct, through continued training across the health system, is a must for regulators, medical practitioners, pharmacists and health administrators. These codes ought to make explicit reference to preventing corruption and conflicts of interest that can lead to corruption, detail sanctions for breaches and be enforced by an independent body.
- It is imperative for pharmaceutical, biotech and medical device companies to adopt the Business Principles for Countering Bribery, through which a company commits to refraining from bribery in its operations and implementing a comprehensive anti-corruption programme.<sup>1</sup>

### Civil society participation and oversight

- Health authorities must introduce avenues for public oversight, which improve accountability and transparency. These should oversee procurement and drugs selection at facility level and health delivery at community and local health board level.
- It is essential for public policies, practices and expenditures to be open to public and legislative scrutiny, while all stages of budget formulation, execution and reporting should be fully accessible to civil society.

### Whistleblower protection

- Governments need to introduce whistleblower protection for individuals working in procurement bodies, health authorities, health service providers and suppliers of medicines and equipment.
- Pharmaceutical companies must also introduce whistleblower mechanisms and protection.

### Reducing incentives for corruption

- In order to ensure that treatment is dictated by patient need and not by opportunities for profit, governments must continuously monitor payment mechanisms (whether fee-for-service, salary, capitation, global budgeting or other).
- Doctors, nurses and other health professionals have to be paid a decent wage, commensurate with their education, skills and training.

### Conflict of interest rules

- Regulators have the responsibility to adopt conflict of interest rules that disqualify individuals or groups with an interest in the manufacturer from participating in clinical drug trials.
- Governments must push for transparency in drug regulation processes, reduction in the excessive promotion of medicines, tougher restrictions on doctors overprescribing drugs, and closer monitoring of relationships between health departments and the drugs industry.
- Medical licensing authorities need to define the specific rules for physician behaviour regarding conflicts of interest (in particular in relationships with the pharmaceutical and medical device industries) and obtain the necessary resources to enforce these rules.

### Integrity pacts and debarment

- An Integrity Pact – a binding agreement by both bidders and contracting agencies not to offer or accept bribes in public contracting – needs to be applied to major procurement in the health sector.<sup>2</sup>

- Companies found to have engaged in corrupt practices must be debarred by governments from participating in tender processes for a specified period of time.

### Rigorous prosecution

- It is essential for prosecuting authorities to strengthen the message that corruption has consequences by rigorously pursuing corrupt acts that are clearly proscribed by law. Producers of counterfeit drugs and the public officials who collude with them must be prosecuted and duly sanctioned.
- Special anti-corruption and fraud agencies to detect corruption and promote preventative measures in the health sector must be equipped with the necessary expertise, resources and independence to carry out their functions, and be backed by functioning independent courts.

Health is a major global industry, a key responsibility and budget expense for governments and businesses; but more than that, it is a global human right. Corruption deprives people of access to health care and leads to poor health outcomes. There are no simple remedies for tackling corruption in the health sector, but the recommendations outlined above and the initiatives highlighted in the *Global Corruption Report* could prevent, reduce and control corruption. These are addressed as a call to action to researchers, governments, the private sector, the media and citizens the world over.

### Notes

1. For more on the Business Principles for Countering Bribery and its supporting guidance document and suite for implementation and monitoring tools, see [www.transparency.org/building\\_coalitions/private\\_sector/business\\_principles.html](http://www.transparency.org/building_coalitions/private_sector/business_principles.html)
2. For more on the TI Integrity Pact, see [www.transparency.org/integrity\\_pact/index.html](http://www.transparency.org/integrity_pact/index.html)