

## Chapter 4: Corporate Social Investment



**Corporate social responsibility<sup>1</sup> is defined as “business decision-making linked to ethical values, compliance with legal requirements and respect for people, communities and the environment.”<sup>2</sup> This is evidenced by a comprehensive set of management endorsed policies, practices and programmes which are integrated throughout business operations and decision-making processes. Corporate social investment (CSI) is external to the normal business activities of a company and is not primarily undertaken for purposes of increasing company profit, nor is it driven primarily as a marketing initiative, although it can help a company develop a competitive advantage.<sup>3</sup> Rather, these projects aim to assist, benefit and empower marginalised individuals and communities. CSI has a strong developmental approach and utilises company resources to the benefit of individuals and communities. CSI forms a significant part of the sector’s contribution to South Africa.**

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<sup>1</sup> Referred to in future as Corporate Social Investment (CSI)

<sup>2</sup> King Report. 2002. *Corporate Governance for South Africa* Section 4 ‘Integrated Sustainability Reporting’.

<sup>3</sup> CSI Solutions, Corporate Social Responsibility. 2007. [online]. [Accessed 22 May 2007]. Available from the World Wide Web at <http://www.csisolutions.co.za/WhatIsCSI.HTM>

## 4.1 Quantifying the CSI activities done by the sector

The approach used in this study to quantify CSI is conservative since it was possible to only calculate the cost of the transaction rather than future revenues and benefits generated by CSI projects (which is the value).

According to the Codes of Good Practice issues in terms of the Broad-Based Black Economic Empowerment Act,<sup>4</sup> the average annual value of all socio-economic development contributions made by the sector must be equivalent to a minimum of 1% of net profit after taxes (NPAT). The sector, in 2006, made an investment that was equivalent to 4.8% of NPAT. This calculation only includes direct cost and does not include a calculation of the benefits brought about by the investment, neither does it include calculations in terms of time donated to assist beneficiaries or projects, services or skills transfer or mentoring effected by company staff, or preferential terms for supply of goods. Such types of contributions are recognised in terms of the BBBEE Codes of Good Practice on Socio-Economic Development.

The high investment in CSI is possible because the sector generates a positive economic profit<sup>5</sup> and because many of the CSI programmes are funded by the global offices of the different multinational companies. The bulk of the CSI programmes will be conducted over of the next 5 years and thus investment will continue to be made into the country beyond 2006. The CSI activities are further aligned with other key stakeholder focus areas such as education, skills development, access and Broad-Based Black Economic Empowerment (BBBEE).

## 4.2 CSI in South Africa

Based on the data received from the participating companies, the CSI activities are categorised into seven main groups. As outlined in Table 4.1, these are: provision of medicines, primary healthcare, social development, enterprise development, support to assist in making education accessible, programmes responding to burden of disease and training.

**Provision of medicines:** medicines supplied to government and organisations at no or minimal costs, supply of medicines during crises or outbreaks and all programmes that make medicines and healthcare accessible.

**Primary healthcare:** bringing basic healthcare to the most vulnerable individuals living in rural areas, improvements in the delivery of care to patients and the provision of back-up support to healthcare workers and institutions.

**Social development:** the development of communities through basic education, supporting people affected by disease and their families. Partnerships with government to bring development into communities and basic infrastructure provision like sanitation and water.

**Enterprise development:** the development of local businesses, including assistance with starting and sustaining the business.

**Educational support:** medical and related health bursaries, bursaries for equity students. Supporting educational institutions with donations, equipment, upgrading infrastructure and sponsoring awards in the healthcare faculties.

**Burden of disease:** training and financial support of programmes that address communicable diseases (HIV and AIDS, TB, and malaria) and lifestyle<sup>6</sup> and non-communicable diseases (diabetes, depression and cancer).

**Training:** training and development of healthcare workers and communities. The training is rendered in conjunction with government departments, local and international organisations.

<sup>4</sup> "Statement 700: The general principles for measuring the socio-economic development element" *Codes of Good Practice on Black Economic Empowerment* Government Gazette No 29617, 9 February 2007.

<sup>5</sup> Refer to Chapter 2.

<sup>6</sup> 'A lifestyle disease is a disease associated with the way a person or group of people lives. Lifestyle diseases include atherosclerosis, heart disease, and stroke; obesity and type 2 diabetes; and diseases associated with smoking and alcohol and drug abuse.' Medicine Net. 2007. *Definition of lifestyle diseases*. [online]. [Accessed 22 May 2007]. Available: <http://www.medterms.com/script/main/art.asp?articlekey=38316>

**Figure 4.1: A selection of examples illustrating CSI initiatives per category from the participating companies<sup>7</sup>**

Category	CSI initiative examples	No. of companies involved (out of 10 participating in research)
Provision of medicines	<ul style="list-style-type: none"> <li>Public private partnerships to provide access to innovative medicines</li> <li>Partnerships with NGOs to provide access to medicines and treatment</li> </ul>	10
Primary healthcare	<ul style="list-style-type: none"> <li>Contributions to facilitate improvements in the delivery of care to patients in community hospitals, providing back-up and support for primary healthcare initiatives</li> </ul>	10
Social development	<ul style="list-style-type: none"> <li>Supporting SOS children's homes</li> <li>Immunisation projects</li> <li>Building of clinics and healthcare infrastructure</li> </ul>	8
Enterprise development	<ul style="list-style-type: none"> <li>Assisting in the creation of a black-owned security and courier firm</li> <li>Assisting in the development of operational &amp; financial capacity of small enterprises, for example cafeteria &amp; carwash facilities</li> </ul>	2
Education & educational infrastructure	<ul style="list-style-type: none"> <li>Vehicle provided to Rhodes University to transport students to previously disadvantaged communities for training in the use of pharmaceutical products and compliance</li> <li>Opportunity for 20 final year SA chemistry students to spend a week at a research site in the UK</li> <li>4 equity individuals received a scholarship to study an international MBA</li> <li>Dinner and award to Pharmacy Student of the Year</li> <li>Medical bursaries for medicine and allied medical professions for equity students (MESAB &amp; Manto Tshabalala-Msimang Bursary Fund)</li> <li>Computer and book donations</li> <li>Book donations of international standard manuals</li> </ul>	10
Burden of disease	<ul style="list-style-type: none"> <li>TB FREE supports the Department of Health's National TB Control Programme (NTCP) by training health TB patient supporters and implementing TB mobilisation and awareness initiatives</li> <li>HIV projects in partnership with NGOs and different clinics</li> <li>Contribution to facilitate studies into depression related to pregnancy</li> <li>Annual grant given to Diabetes Association</li> <li>Trained nurses on diabetes care and management</li> </ul>	8
Training	<ul style="list-style-type: none"> <li>Providing on-the-job training for equity candidates busy with health-related studies</li> <li>HIV home based care training</li> <li>Training to healthcare workers on diabetes, cancer etc</li> </ul>	8

<sup>7</sup> Data sourced from participating companies

### 4.3 The value of the CSI activities in South Africa

A snapshot of the cost of CSI for 2006 was estimated at 4.8% NPAT for the sector. This does not include many of the programmes that rolled over from previous years and does not fully capture the value brought about by these programmes. These activities are valued at approximately R1.5bn.

The impact of Corporate Social Investment is not limited to the monetary value of the programmes. It can also be measured in terms of improvement to quality of life and spin-offs resulting from skills development, skills transfer and education. Although some of the CSI activities cannot be measured in financial terms, the mix of examples that follows does provide an indication of this impact.

### 4.4 Intangible benefits of CSI in South Africa

The case studies quoted in this chapter highlight the impact of the CSI activities. This impact cannot easily be quantified and is generally considered an indirect benefit.

#### 4.4.1 Burden of disease

Productivity of a healthy workforce is the main benefit. Limiting a description of the benefit of the programmes to the cost incurred by the sector companies does not capture the true value they bring to South African society. The programmes offered by the different companies within the sector offer free or very low cost medicines for the reduction, and in some cases ultimately the total eradication, of prevalent diseases in South Africa. HIV & AIDS, malaria and TB are diseases that are very high on the agenda of the Department of Health, and all three disease areas are targeted by the different MN pharmaceutical companies (in partnership with government and other organisations). An analysis conducted by Grant Thornton in 2007 showed that medicines provided to alleviate the burden of disease brought about by, for example HIV and TB, amounted in savings to South Africa to the value of R1.4bn.<sup>8</sup>

The sector companies allow access, not only to the medicines, but also to expertise and world class technology in order to combat these diseases. The cost of the medicines highlighted in the cost of the CSI programmes does not include the cost of all the networks involved in making the medicines access programmes possible. The value and improvement in quality of life that patients and their families receive due to the availability of these treatments are also not accounted for. For more on this refer to cases 1 (TB Free Project), 5 (Antifungal Programme), 6 (Malaria Programme) and 9 (ARV Programme) below.

#### 4.4.2 Educating learners to become a more productive workforce in the sector

For purposes of this study, the value of education is calculated based on the cost of the programme to the sector to provide the training programme. The opportunities afforded students (of whom many are equity candidates) in the form of bursaries and scholarships cannot be quantified as the benefit to the country goes further than having an educated population. It encourages societal transformation through scholarships like the Novo Nordisk MBA scholarship. In another example, the digital divide is bridged by means of a programme run by Eli Lilly, outlined below in Case Study 3.

The education programmes address education and skills development and the outcome of the programme further contributes to BBBEE objectives through the development of future leaders. For more about this refer to cases 2 (bursary programme), 3 (equipment donation, health-related training and support to disabled children), 7 (MBA programme for equity students) and 8 (donation of key reference works) below.

### 4.4.3 Innovative ways to bring healthcare to communities

The Phelophepa healthcare train (see detail in Case Study 4) is a classic example of the efforts that the multinational companies have made to bringing healthcare to communities. The Phelophepa train brings world-class treatment to rural communities in the midst of a lack of infrastructure and basic services. The train overcomes issues such as shortages of electricity, water supply and roads, which would otherwise hinder patients accessing healthcare. The vast range of socio-economic programmes that the different companies are involved in further highlights the commitment that the sector has to bringing primary healthcare to South Africans.

## 4.5 Enterprise development

MSD and Novartis are two examples of companies which have lowered costs and become more competitive while creating opportunities for their employees. Novartis, for example, understood that owning and managing its cafeteria business distracted skills, resources and management time from its core business of medicines. Novartis therefore decided to exit the catering function. However the contract was not offered to an established catering company. Rather, the company packaged its catering staff and assets into a new catering company. The new company, Thokozela Food Enterprises CC, services Novartis via service level agreements and is also free to pursue work outside Novartis. Thus far Thokozela Food Enterprises has been very successful.

Having started with just seven employees, the wholly owned BEE company now hires eleven full-time employees (six of the eleven are owners) and one contract worker. Novartis was the only company that was serviced by Thokozela Food Enterprises when they commenced with the enterprise in June 2006. They now provide catering services to six businesses. This is an example of a support business which forms part of the business cluster. Around the sector the business could not exist without Novartis' assets and supplier contract. Today it is an example of how to empower employees and create mutual value. MSD followed the same approach in creating a security and courier business from its existing assets and staff. Sanofi-Aventis partnered with Litha Healthcare Investments (Pty) Ltd to create a company solely dedicated to the supply and distribution of TB medicines in the public sector. For more on this refer to Case 1 in Chapter 3.

## 4.6 Conclusion

The value of CSI activities significantly exceeds their costs if the future cash-flows generated, employment created, taxes paid on profits and the multiplier effect of employment are accounted for. CSI activities are funded from profits generated by R&D-based MN pharmaceutical companies.

The intangible benefits that CSI brings include: quality of life and health improvements, bridging the skills and knowledge gap in South Africa, contributing towards productivity in the country and contributing to BBBEE objectives.

## Case 1: The TB-Free Programme

### Free distribution of TB medicines

#### Key facts:

1. Sanofi-Aventis has donated €15m (R130m) over a five year period towards a Corporate Social Investment project known as TB-Free, which is implemented in partnership with the Department of Health and fully supports the Department's National Control Programme
2. The TB-Free Project focuses on the following projects:
  - i. Providing training for Community Care Givers in DOTS support
  - ii. Social mobilisation which includes raising awareness and advocacy
  - iii. Strengthening information collection and the monitoring and evaluation system in the crisis sites.
3. TB Free's contribution to the DOH's TB control programme thus far:
  - i. Opened 9 fully operational TB-Free centres in all 9 provinces – working hand-in hand with provincial government
  - ii. TB programmes
  - iii. Trained 12, 000 DOTS supporters to date
  - iv. Embarked on numerous TB education campaigns with the DoH (e.g. Taxi Branding Campaign and TB Education in Prisons).
4. Future Commitment
  - i. Sanofi-Aventis (global) plans to move its entire TB drug manufacturing to the South African plant
  - ii. Expanding local production of TB drugs will ensure reliable and continuous availability of stock to provide for uninterrupted TB drug supply
  - iii. It will also increase the current manufacturing capacity for TB drugs ensuring decreased cost of manufacturing resulting in more affordable TB drugs to government and as well as increased employment and contribution to the SA economy
  - iv. The Sanofi-Aventis Global Access to Medicines Programme has also refocused and increased resources towards the TB research and development division to expedite the development of new and more effective TB drugs.

## Case 2: Development of a professional and skilled workforce via bursaries

Unlike in the engineering, commerce or finance sectors, there are not many alternate sources of funding for those choosing to pursue a career in the medical or pharmaceutical sciences. The pharmaceutical and biotechnology sectors are amongst the primary sources of funding. Other sectors benefit from educational bursaries from a wide range of private companies. The bursary and skills development programme rolled out in the healthcare sector is therefore crucial.

In 2006, the R&D-based MN pharmaceutical companies awarded bursaries sufficient to put 147 professionals through the tertiary educational system. The Department of Trade & Industry (DTI) estimates a skills shortfall of 15, 000 professionals in the country. This programme therefore reduces the skills shortfall by 1% in absolute numbers of professionals. If one were to compare this against the cost of advertising, recruiting, relocating and paying the salaries of foreign educated professionals, then the programme value increases by a factor of three.

<b>Cost of bursary fund</b>	<b>R11m</b>
Average cost of undergraduate science degree	R45, 000
Number of students facilitated	245
Graduates in 3 years - adjusted for actual pass rate	147
Shortfall of science skills in South Africa	15, 000
Reduction in shortfall	1% = (15,000-147)/15, 000
Factor adjusted for the costs to recruit foreign talent	3
<b>Value of the programme</b>	<b>R33m</b>

### Case 3: Lilly's contribution to education in South Africa

#### **The Lilly Foundation of Southern Africa's motto is "The power of partnerships"**

Lilly's partnership focus has led to the creation of numerous health and education-related interventions.

Lilly has been a significant contributor to secondary and tertiary education in South Africa. They have partnered with rural schools that lack the basic infrastructure of a classroom or desk and donated over 3,000 'Lap Desks'. In an effort to bridge the digital divide, Lilly partnered with Digital Partnership and Microsoft by supplying computers that aid over 10,000 students and support systems such as printers and internet access across Africa. Lilly is a founding member of the Manto Tshabalala-Msimang (MTM) Health Professionals' Bursary Fund which was established in 2001. This bursary fund sponsors students from disadvantaged families in a health-related field of study.

Health-related training is one of the firm's focuses. Lilly sponsors the Vienna School of Clinical Research which has trained over a hundred and fifty health care professionals from East and Southern Africa focusing on research and clinical trial protocol. Lilly also partnered with the National Department of Health and sponsored training for 13 doctors and nurses to a MDR-TB World Health Organisation Centre of Excellence in Latvia. Lilly is in partnership with the National Department of Health where hundreds of nurses have been trained. These nurses come from most of the 9 provinces that work at the government-run facilities, and screened thousands of communities for diabetes. Lilly also partnered with the provincial departments of health and trained over 400 nurses from seven provinces on prevention, care and management of diabetes. South Africa is one of three African countries where funds have been channelled for educational training in diabetes.

In support of the deaf, Lilly partnered with Eduplex, an educational organisation for Children with a Hearing Loss in South Africa and awarded bursaries for underprivileged children to attend the centre.

The South African Depression and Anxiety group received a donation from Lilly in order to develop mental health speaker books to educate communities and health care workers in rural areas across South Africa on mental health.

**Case 4: Roche and the Phelophepa health care train****A travelling hospital which provides healthcare, employment, skills transfer, development and training**

Since 1994, the Phelophepa train has run as a clinic, on rails, that provides basic medical care in remote regions of South Africa. Roche has been supporting the project since its inception and is now the project's primary sponsor. The operation is run by the state railway company, Transnet. Today the Phelophepa Health Care Train has 16 coaches, weighs 600 tonnes and is fully equipped for general, dental, eye and psychiatric care. The train operates 36 weeks a year, visiting regions with inadequate medical care. The staff consists of 14 employees and around 40 students from various fields of medicine, who complete 14 days of practical training.

The Health Train has reached more than one million people in remote regions of South Africa. At each of the 36 scheduled stops, 20 members of the local community are trained in basic healthcare. During the five-day courses, they are provided with information on family health, such as first aid, hygiene, infections and nutrition.

The long queues that form daily in front of the mobile clinic testify to the train's relevance and impact. A new oncology and diabetes unit has recently been introduced. The Phelophepa Health Care Train encourages development, research and innovative solutions to the health problems faced in rural areas.

**Case 5: Pfizer's contribution to the fight against HIV & AIDS****Pfizer Inc. provides the antifungal medicine, Diflucan® (fluconazole), free to the South African public**

Pfizer Inc makes available free of charge its antifungal medicine, Diflucan® (fluconazole), for the treatment of Cryptococcal Meningitis and Oesophageal Candidiasis, two opportunistic infections associated with HIV/AIDS, to governmental and non-governmental organisations in more than 80 countries in need. Countries with greater than 1% HIV/AIDS prevalence are given priority.

Diflucan® (fluconazole) is included in the World Health Organisation's list of Essential Medicines as a treatment for fungal infections. To ensure successful implementation of the Diflucan® Partnership Programme, Pfizer is working closely with their external partner, Axios International, an international consultancy specialising in chronic disease management and medicine delivery in developing countries.

Pfizer offers Diflucan® training sessions for health care workers in Johannesburg. Training is provided by the Pfizer-sponsored, International Association of Physicians in AIDS Care (IAPAC). The training educates health care providers in diagnosing and treating opportunistic infections and distributes educational and training materials. Through these training sessions, Pfizer and IAPAC hope to strengthen the ability of health care providers to administer Diflucan® as a treatment for fungal opportunistic infections by improving the quality and delivery of health care. Pfizer also sponsors the HIV/AIDS hospice that is located within the Helen Johnson Hospital in Johannesburg, South Africa. Here, Pfizer colleagues administer donated Diflucan® and medical treatment.

**Case 6: Novartis, making malaria medicines available to South Africans****Novartis piloted malaria medicines in Kwa-Zulu Natal**

The public-private partnership between Novartis and the World Health Organisation was established to provide Coartem® at not-for-profit pricing to developing countries. As such, Novartis is an active partner in the 'Roll back malaria' project. In the fight against malaria, the Novartis product Coartem® plays a significant role. Coartem® is a fixed combination of artemether, a chemical derivative of artemisinin, and lumefantrine - a synthetic compound. ACTs are the most potent killers of malaria parasites yet discovered. Artemether takes immediate effect, while lumefantrine acts more slowly, but gives excellent long-term results. In 1994, Novartis licensed worldwide marketing rights to Coartem® outside China. Coartem® achieved impressive cure rates of up to 95% in clinical trials.

Novartis reduced average treatment price of Coartem® in Kwa-Zulu Natal, subsidising access to this leading anti-malarial medicine. Deliveries quintupled in 2006 to 62 million treatment courses globally.

In 2006, the Novartis access-to-medicines programmes (of which the malaria project is one), were valued at \$755mn and reached 33.6 million patients globally. Through multilateral institutions and public-private partnerships, Novartis also provides free leprosy and tuberculosis treatment free to patients in the developing world.

**Case 7: Novo Nordisk's International MBA Scholarship****Four equity students on an international 12-month MBA course at Alba University in Athens, Greece**

Novo Nordisk is involved in a scholarship programme that provides high quality international education. The programme is offered at universities in Denmark and Southern Sweden. Novo offers a range of opportunities to international students in their final year of masters. In 2006, Novo initiated a new programme for South African MBA students. The company sponsored four equity students to complete a year long MBA course.

As one student commented: "The programme has added immense experience to my life. I have studied courses which I did not do in my junior degree like Corporate Finance, Investments and Global Financial Markets." Students were also exposed to a business plan project which enhanced their understanding of entrepreneurship.

Lulamile Danster, a 2006 scholarship recipient, commented that "I had no relationship with Novo before this opportunity and there are no strings attached." With the continuation of this project, qualified business professionals will move into the South African economy with an understanding of the workings of international business.

**Case 8: MSD building the capacity of South African Health professionals****MSD has published The Merck Manual, one of the world's most widely read medical reference texts, on a not-for-profit basis for the past 100 years**

During 2004, MSD entered into an agreement with the government of South Africa to provide 1, 000 Merck Manuals to young South African doctors who have been deployed to rural areas. The Merck Manual was provided to the doctors free of charge. In partnership with the Department of Health and the Democratic Nursing Organisation of South Africa (DENOSA), MSD provided a further 20, 000 copies of The Merck Manual Home Edition to professional nurses, as a contribution to the knowledge and resources available to the profession.

**Case 9: MSD's Worldwide Accelerating Access Initiative****MSD is involved in bringing ARVs to South Africans at not-for-profit-prices**

STOCRIN<sup>®</sup> is an anti-retroviral drug used in the treatment of AIDS. The product is packaged in the MSD plant in Midrand and shipped throughout South Africa and neighbouring countries. The plant employs 56 people and the STOCRIN<sup>®</sup> packaging line was upgraded at a cost of more than R20m.

It is sold in South Africa at prices determined according to MSD's worldwide access pricing initiative. In terms of this initiative, STOCRIN<sup>®</sup> is sold in countries such as South Africa at not-for-profit prices in order to increase patient access to the medicine. STOCRIN<sup>®</sup> 600mg is currently sold at US\$19.50 per 30 tablets in South Africa in both the private and public sectors, compared with a comparable average European price of US\$360.60 – more than 94% cheaper than in Europe. More than 3.3 million packs of STOCRIN<sup>®</sup> were distributed from the MSD premises in Midrand in 2006, including exports of 700, 000 packs.

MSD has also granted a license to Aspen allowing them to manufacture a generic version of efavirenz (STOCRIN<sup>®</sup>).