

ABIF: Providing the right prescription for Afghanistan's pharmacies

Afghanistan's pharmaceutical sector is hampered by archaic regulations, widespread corruption and high levels of counterfeit drugs. At best, many of these illegally imported drugs are ineffective, and at worst they can be fatal. Low-income consumers are particularly affected because they receive the lowest value for money for the highest proportion of their income spent on medicine. By investing in a pharmacy chain that builds trust through quality assured medicine, ABIF is disrupting this system. The business has recently received investment from a UK private equity firm, a clear validation of ABIF's approach.

The challenge

Poor people in Afghanistan suffer some of the worst health problems in the world, a situation made worse given that over half all available medicines are counterfeit. At best, these illegally imported drugs are ineffective. At worst they can be fatal.

The Afghanistan Business Innovation Fund (ABIF) is a DFID and Australian DFAT challenge fund launched in 2012 applying a market development approach across multiple sectors including healthcare. ABIF's analysis of the pharmacy retail sector found two related market failures: poor information flows between retailers and consumers; and a lack of effective regulatory control. Furthermore, regulations were

holding back the development of pharmacy chains and restricting competition by requiring a fixed distance between shops.

ABIF was designed to stimulate private sector investment by helping innovative business ideas overcome the high investment risk in Afghanistan. The risks are so high that many businesses which would be viable in any other part of the world cannot generate returns to justify the up-front finance required.

Towards a new model of pharmacy

ABIF's vision was a functioning market where healthcare providers compete for customers based on trust. ABIF's rationale for investing in new business models is that they will be adopted by other companies in the sector. Long term, this would ultimately be reinforced by government policies that would tackle the corrupt importation of counterfeit drugs and enable branded retail chains to thrive. Ultimately poor people would benefit from improved access to lower-cost, quality assured products.

Building trust among consumers

After asking for concept notes, ABIF came across Al Hadi Ltd., a pharmaceutical company looking to build a chain of trusted retail pharmacies. Al Hadi's business model directly addressed the lack of access to genuine and affordable medicines that ABIF had identified. During discussions, ABIF proposed using mobile technology to let customers verify the quality of drugs. This innovation had already been proven by GSK in Nigeria to overcome the challenge of counterfeit drugs. Al Hadi ran with the idea, and is piloting a similar approach with 786 pharmacies.

As a challenge fund, ABIF was set-up to make viable commercial investments using a minimum amount of public grant money. Figuring out that optimal amount required detailed calculations of the rate of return for 786's business plan. This was then compared to the expected rate of return for investors in Afghanistan, which ABIF calculated to be 25 per cent.

In March 2013, ABIF signed a grant agreement to support Al-Hadi's investment in the 786 Pharmacies project. The money was disbursed at specific milestones, to make sure that the company and the fund were sharing risk at each step of the process. The final 20 per cent of the grant was only released once 786 had established an agreed number of new pharmacies and reached a target number of poor customers.

Serving over 220,000 customers

Al-Hadi has opened eight 786 pharmacies in Kabul city since March 2013, and has so far served over 220,000 customers. In the past few months and after extensive

due diligence, 786 Pharmacies received growth stage investment from a UK private equity firm. This was a clear endorsement of the underlying business strategy and its commercial potential. Attracting external equity finance is a major achievement for any business in Afghanistan, given the particular set of investment challenges in the country. 786's visible commercial success has been a major early milestone in getting other companies to copy its business model. One aspect that is already showing promise is its extended opening hours, which other pharmacies have been forced to copy. Additionally, the company is beginning to hire female pharmacists to provide better service to its female customer base. These are small, but important indicators that 786 is driving change within the sector.

One of Al Hadi's strengths is its owner's commitment to overcoming archaic regulations while still complying with local laws. He has found clever workarounds, such as registering different outlets in the names of family members to overcome the rule that each person can only own a single pharmacy.

In addition to this, Al Hadi is lobbying for a change to pharmacy regulations in Afghanistan that prevent inclusive growth. They have submitted a concept note to the Ministry of Public Health illustrating how modernising regulations would benefit Afghanistan's poor through improved access to quality healthcare services, job creation and general professionalism in the pharmacy sector, all while generating tax revenue for the government. Through these efforts, 786 Pharmacies is slowly making a lasting positive impact on Afghanistan's healthcare services sector.

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